

20th Century Bookkeeping and Accounting

A TREATISE ON THE PRINCIPLES OF ACCOUNTING AND
BOOKKEEPING PRACTICE APPLIED BY MODERN
BOOKKEEPERS AND ACCOUNTANTS

FIFTEENTH EDITION

FOR USE IN ALL SCHOOLS THAT TEACH BOOKKEEPING
AND ACCOUNTING

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ASSISTED BY
COMMERCIAL TEACHERS AND PRACTICING ACCOUNTANTS

THE DISCUSSION IN THIS TEXT AND THE TRANSACTIONS IN THE PRACTICE SETS WHICH
ACCOMPANY IT ARE THE RESULT OF SUGGESTIONS RECEIVED THROUGH PERSONAL
INTERVIEWS AND CORRESPONDENCE WITH THOUSANDS OF TEACHERS, PRACTICING
ACCOUNTANTS, AND BOOKKEEPERS, DURING TWENTY YEARS' ASSOCIATION
WITH THOSE ENGAGED IN COMMERCIAL WORK

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P R E F A C E

The successful business man should know that a profit will result from the transactions in connection with his business before they are completed. To determine this he should have such information as will show the detailed operating cost, the profit from trading or other operations, the net profit for each fiscal period, its source, and the increase or decrease over previous periods.

A report concerning the failure or suspension of a business, accompanied by the statement that the creditors will not know what percentage of their claim may be collected until the experts have audited the books, indicates that the management did not have all the facts available in connection with the business. Such a statement is so common in the newspaper announcement of failures that it suggests a connection between accounting and success.

If these conditions are to be improved, it is necessary to teach the correct principles of accounting and the best practice in applying them. The bookkeeping student of today is the bookkeeper or business man of tomorrow. If he has a knowledge of the correct principles, as bookkeeper he will apply them, or, as manager, he will see that they are applied by the bookkeeper.

The purpose of this text is to present the correct principles of bookkeeping and accounting,—principles advocated and practiced by modern bookkeepers and accountants. The information upon which it is based was obtained from standard authorities on accounting and from consultations with practicing bookkeepers and accountants.

The text is prepared primarily for the student and not for the practicing bookkeeper or accountant. The presentation permits the beginner to master first the simple principles of accounting as applied in a small business. When he understands these, he can then appreciate the more complicated principles of accounting necessary in recording the transactions for a business of extensive operations.

A study of the text would result in only a theoretical knowledge of the subject. Practice is necessary in applying the principles. A correct knowledge of the principles is essential, but efficiency in applying this knowledge is of equal importance. The student who has mastered the principles of bookkeeping and accounting should have also acquired accuracy, neatness and speed. For this reason the practice sets require the recording of a number of transactions,—a sufficient number to impress on the student's mind the importance of a correct record and to give him confidence and skill in applying his knowledge of the subject.

That the student may learn to recognize a transaction from the paper that represents it in business, he is required to make his record in the practice sets from reproduced business papers. The transactions, moreover, are practical, and identical with those that occur in business. Applying the correct principles and recording practical transactions represented in the same manner as they are in business, gives the student a knowledge of the subject which will make his services desirable to the business man, and valuable to himself.

Not only should the student who has completed a course in bookkeeping and accounting understand the principles of the subject and the best practice in ap-

PREFACE

plying these principles, but he should also have some knowledge of the efficient methods employed in modern business. This knowledge, given in connection with the sets, includes special ruling in all books of original entry, carbon copy and loose leaf records, controlling accounts, and many other time-saving methods made popular by practicing bookkeepers.

Efficiency in office routine means the greatest amount of work with the best results at the least cost. As applied to the work of the bookkeeper, it means the ability to record the greatest number of transactions with correct results in the least possible time. Throughout the text and sets, special attention is given to modern methods in recording transactions.

The student who has mastered the principles in this text and completed the sets that accompany it, need not hesitate to accept a position as bookkeeper in any office. He can rest assured that the training received will have prepared him to make a correct record in an efficient manner. If the work of his predecessor has not been correctly done, he is prepared to improve the method in use. He can act with the assurance that the work he does will be approved by the accountant who audits his books.

The student of bookkeeping will soon be receiving an income, hence should know the connection between the knowledge gained through the bookkeeping course and the income tax statement required by the Government. To provide this information, practice is given in the preparation of income tax statements. Information in regard to the forms is given in an appendix because these forms will be changed from time to time by legislation. The student who understands the principles of accounting as explained in this text, and the bookkeeping practice illustrated in the practice sets, will find the preparation of an income tax statement a very simple problem.

THE PUBLISHERS.

Part One

Chapter I

BUSINESS AND BOOKKEEPING

The Purpose of this Chapter is to introduce the student to the subject of bookkeeping by showing him its purpose through an explanation of business. There are many reasons why the student should understand bookkeeping. The business man will pay well for information which he needs; hence the one who can provide this information through a knowledge of bookkeeping will command a good salary for his services. The student who is ambitious to become a business man should know bookkeeping because this knowledge will enable him to interpret the information obtained from his bookkeeping records and to use it as a basis for future operations of the business.

§ 1. Each Individual requires food, clothing, education, amusement, and many other things necessary for his comfort and enjoyment. These necessities and luxuries can be obtained with money, which is a medium of exchange and the standard of value. An individual secures money (a) through income received as wages or salary for services he has rendered to others, (b) through the use by others of property which belongs to him, or (c) through the profit resulting from the operations of a business owned by him either in part or as a whole.

James Brown is employed as salesman for the Citizens Motor Car Co.; his income is the salary received for the service rendered. J. W. Smith owns the building in which the Citizens Motor Car Co. is operated; his income is the rent received for the use of the building. W. O. Winkler owns the Citizens Motor Car Co.; his income is the profit made by selling automobiles at a price greater than the cost.

§ 2. A Business. The one who sells to the individual the food, clothing, education, amusement, or other things which the individual needs for his comfort and enjoyment, is said to be engaged in business, and the operations in connection therewith are referred to as business transactions. The operations include the buying and selling of the commodities in which the business deals, at a place of business and under a name selected by the owner. There are many kinds of businesses, each of which supplies a specific demand; there are many businesses of the same kind which undertake to supply the same demand.

Robert Brown owns and operates a drug store at 405 Main St., known and advertised to the public as "The Central Drug Store." Mr. Brown is a business man because he operates a business. The operations of his business include the buying and selling of medicine and drugs, as well as the other articles a drug store usually handles, and his business is referred to as a drug business.

§ 3. Assets, Liabilities and Proprietorship. If the owner of a business is to have ready for sale the merchandise or service which he expects to sell, he must have cash with which to purchase this merchandise or service. The cash, merchandise, and other property needed to carry on the operations of a business are known as its assets. Should the owner of a business agree either in writing or verbally to pay at a later date for the merchandise or service purchased, he has incurred an obligation or debt; this obligation is known as a liability, and all the obligations of the business are known as its liabilities. The liabilities are to be paid out of the assets of the business, hence the owner's interest in the busi-

ness is the excess of total assets over total liabilities; this interest is known as his proprietorship. Stated in equation form, assets—liabilities=proprietorship.

John Jones, who has \$3,000.00 in cash, wishes to purchase a drug store; Robert Brown, who owns and operates "The Central Drug Store" is willing to sell the same for \$2,500.00. January 1, Mr. Jones pays Mr. Brown \$2,500.00 for which he secures all the assets of the store; these include drugs, medicine, and other merchandise usually offered for sale by a drug store, and a soda fountain with the usual equipment. He retains the \$500.00 for the purpose of buying other drugs. If this \$500.00 is not sufficient to pay for the drugs purchased and these drugs are sold to him upon his promise to pay later, he incurs a liability. During the operations of the business his interest in the business is the value of all the assets belonging to the business less the liabilities.

§ 4. The Name of an Asset or a Liability depends on its nature. Custom has fixed the names of the assets which usually belong to a business and the liabilities which are usually incurred. Money is referred to as "cash;" written promises (in negotiable form) of those who agree to pay money to the business, as "notes receivable," and verbal promises, as "accounts receivable;" merchandise in stock, as "inventory;" fixtures used in the business, as "furniture and fixtures;" written promises (in negotiable form) of the business to pay money at a future date, as "notes payable;" and verbal promises, as "accounts payable."

§ 5. Cost and Income. When a business is organized, the owner expects to purchase the merchandise or other property which he sells, also to pay rent, salaries, advertising, etc.; these are known as costs. The owner of the business also expects to sell the merchandise or service which he offers for sale; the returns from sales are known as income. If the income be greater than the cost, the business has been operated at a profit; if the income be less than the cost, it has been operated at a loss.

When Mr. Jones bought the drug business, he knew there would be certain costs in connection with its operations, including rent, salaries, telephone service, purchases of merchandise, supplies for the soda fountain, etc. However, he was willing to assume these costs because he expected an income from the sales of merchandise which he purchased and from the products of his soda fountain. If at the end of the first year his costs amount to \$4,000.00 and his sales to \$5,000.00, he will have made a profit of \$1,000.00 through owning and operating the drug business.

§ 6. The Name of Each Cost and Income depends on its nature. It is quite evident that cost for rent and cost for merchandise purchased are of an entirely different nature; also that the income from the sale of merchandise and the income from the sale of service are of a different nature. Custom has fixed the names of the costs and income which occur in the usual operations of the business. Rent and salary costs are known as "expenses;" merchandise purchased for sale, as "purchases;" income from the sale of this merchandise, as "sales;" income from the use of money, as "interest;" income from the sale of services such as that rendered by telephone and telegraph companies, as "tolls;" and income from the sale of service rendered by a street railway company, as "passenger receipts."

§ 7. A Business Transaction is, theoretically, an exchange of equivalent values; that is, the business receives an equivalent value for the material or service which it sells to others, and gives an equivalent value for the material or service which it purchases. Because of this exchange of values, each transaction will result in a parting with values by the business with a resulting increase of liabilities or income; and a corresponding receipt of value with a resulting increase of assets or cost.

Mary Davis pays John Jones, the owner of The Central Drug Store, 25c for a magazine; this is a transaction performed by the owner because he receives cash and parts with a magazine. James Doyle pays the street-car conductor a fare of 8c; this is a transaction performed by the street-car company because it receives 8c cash for service it has rendered.

§8. **Bookkeeping** is the systematic recording of the transactions of a business, or of any changes which may affect the owner's interest in the business. This record is made (1) by writing the date, explanation, and amount of each transaction; (2) by classifying the items of the record to show values received (assets and costs), and values parted with (liabilities and income).

The term "accounting" in the title of this text is usually used with the same meaning as bookkeeping. However, there is a technical difference which will be explained later. No attempt is made to explain everything about bookkeeping and accounting at the beginning, because it would only result in confusion, and the student can better learn as he advances.

§ 9. **The Purpose of Bookkeeping for a Business** is to provide a record of all transactions performed by the business. The owner of the business needs this information in order that he may know the value of the assets and liabilities of the business, and the cost and income resulting from its operations. The information gained through the operations of the business in the past can be of value to the owner in connection with the performance of future transactions only when he has a complete record of the transactions performed.

§ 10. **The Purpose of Bookkeeping for an Individual** whose income results from a salary or an investment is the same as for a business—that is, to assist the individual to better control his income and expenditures. If, at the end of each year, the individual knows his total income for the year and his expenses for the year, he will be in a far better position to control future expenditures than if he depends on the information obtained from an actual count of the assets he has remaining at the end of the year. The individual who has money invested in property should record the cost of the property, the cost of taxes, insurance, repairs, etc., and the income from rent; with this information he can determine whether his investment is profitable.

The individual whose income is a salary can better control his expenditures by making appropriations for those expenditures which he knows will occur, such as rent, food, clothing, amusements, contributions, etc; this will enable him to avoid spending more for any one of these items than his salary will permit. This plan of making appropriations is referred to as a "budget system," and the list of appropriations, as a "budget." The budget system is not only applicable to the affairs of an individual, but is also applicable to the affairs of a government and a business concern. City, county, state, and national governments are rapidly adopting the budget system for the control of expenditures, and many business concerns make expenditures for advertising, salaries, improvements, etc., through a system of budgetary control.

§ 11. **Summary.** The student needs to know bookkeeping because a knowledge of the subject will increase the value of his services, whether sold to others or used in connection with his own business. Income can be earned through a salary received, an investment, or the operations of a business. A business man is one who undertakes to provide services or commodities for which there is a demand. Assets are needed in connection with the operations of a business, and liabilities may be incurred. The proprietorship of a business is the value of the assets after the liabilities are deducted. Cost refers to expenses and purchases made necessary in order that the business man may have an income through the sales of merchandise or services. A business transaction is an exchange of equivalent values; each value involves an asset, a liability, a cost, or an income. These transactions are recorded in order that the owner of the business may have a record of them. This record is made by writing the date of the transaction, the name of the asset, liability, cost or income, and the value received and the value parted with. Every transaction affects an asset or an income and a liability or a cost.

QUESTIONS

1. What is the purpose of bookkeeping?
2. Is it advisable for a person who receives a salary for his services to keep a record of the transactions which he performs in connection with his affairs?
3. Name some of the transactions which the individual would perform in connection with his affairs.
4. Would you think it advisable for a person who receives a salary to appropriate fixed amounts for living expenses, clothing, charity, and savings? State reasons for answer.
5. Would it be advisable for the owner of an apartment building with six apartments to keep a record of the transactions performed in connection with the operation of the building? Why?
6. Name some of the transactions which the owner of the apartment building would perform.
7. How would he ascertain whether the ownership of the apartments was a profitable investment?
8. Would you consider a contractor who undertakes to build houses, roads, sidewalks, etc., a business man? Why?
9. Name some of the transactions which he would perform in connection with the operations of his business.
10. Is the payment of street car fare by the individual who rides on the car a business transaction from the standpoint of the street car company?
11. Name some of the assets which would be needed and some of the liabilities which might be incurred in connection with the operation of a railroad.
12. Name some of the assets and liabilities in connection with the operation of a grocery business.
13. Would you consider it advisable for those in charge of a city government to make a record of the transactions completed in connection with its operations? Why?
14. Name some of the transactions which would be recorded in connection with the operations of a city government.
15. Is an automobile truck, owned and used by the grocer for delivering groceries, one of the assets of his business?
16. Name some of the operating costs in connection with the operations of a steamer which carries freight and passengers.
17. Name some of the assets which would be needed and the liabilities incurred in connection with the operations of this steamer.
18. Name some of the operating costs in connection with the publication of a daily newspaper.
19. Name some of the assets and liabilities in connection with the operations of a newspaper.
20. Is the farmer engaged in operating a business?
21. Name some of the transactions which would occur in connection with the operations of a farm.
22. Name some of the assets needed by the farmer and some of the liabilities he might incur in connection with the operations of his farm.
23. Name some of the operating expenses which it would be necessary for the farmer to pay in connection with the operations of his farm.
24. Name some of the transactions which a physician would perform in connection with his practice.
25. Name three businesses of the same kind. Name three businesses of different kinds.

CASH ACCOUNT

§ 15. **The Purpose of this Account** is to show the amount of cash belonging to the business as a result of the transactions in which cash is received and paid. "Cash" is a term applied to money or any commercial paper which the bank will accept at its face value as money. The various forms of commercial paper which are regarded as cash will be explained and illustrated later.

Debit the Cash Account:

Credit the Cash Account:

¶ 1. For cash received.

¶ 2. For cash paid.

¶ 3. *The Balance of the Cash Account* shows the amount of cash which belongs to the business as a result of the cash transactions completed; it is one of the assets of the business. This cash may be in the safe, in the bank for safe-keeping, or a part in each place. (See Illustration No. 3.)

There are four important points relating to each account which the student should understand: (a) its purpose, (b) the transactions to be recorded on the debit side, (c) the transactions to be recorded on the credit side, and (d) the interpretation of its balance—that is, whether it represents an asset, a liability, a cost, or an income. The discussion of each account in this text is arranged so as to emphasize these four points.

§ 16. **Proving Cash.** Since the Cash account is a record of all cash received and paid, the balance should be the same as the cash belonging to the business. Cash is proved by counting the cash and comparing the amount with the balance of the Cash account. If there has been an error in making change, or a transaction affecting cash has not been recorded, it is obvious that the balance of the account will not be the same as the cash on hand.

PURCHASES ACCOUNT

§ 17. **The Purpose of this Account** is to show the net cost of all the merchandise purchased for sale. Merchandise is a general term applied to goods bought and sold in the trading business, such as groceries, clothing, shoes, hats, hardware, drugs, musical instruments, jewelry, etc.

Debit the Purchases Account:

Credit the Purchases Account:

¶ 1. For the cost of merchandise purchased, and the transportation (freight, express, and postage), drayage, and storage cost of this merchandise.

¶ 2. For the cost price of merchandise returned to the seller, and allowances granted by him.

¶ 3. *The Balance of the Purchases Account* shows the net cost of merchandise purchased during the period for which the record is kept; it is one of the costs of the business. This balance will not, as a rule, represent the value of the merchandise owned by the business because the merchandise was purchased for sale and a part of it has probably been sold. (See Illustration No. 3.)

SALES ACCOUNT

§ 18. **The Purpose of this Account** is to show the net returns from the sales of merchandise. It is a record of the transactions affecting the sales of those articles purchased for sale, the cost of which is charged to the Purchases account.

Debit the Sales Account:

Credit the Sales Account:

¶ 1. For the selling price of merchandise returned by the customer, and allowances granted to him.

¶ 2. For the selling price of merchandise sold.

¶ 3. *The Balance of the Sales Account* shows the net returns from the sales of merchandise during the period for which the record is kept; it is one of the incomes of the business. (See Illustration No. 3.)

RECORDING TRANSACTIONS DIRECT IN THE LEDGER

§ 19. **Transactions are Recorded** in the order in which they occur. The record may be made direct in the ledger or in a separate book and transferred to the ledger. Illustration No. 3 shows the method of recording direct in the ledger the transactions outlined below and at the top of page 12. The transactions are those relating to the sales and purchases of merchandise for cash performed by the soda fountain department of The Central Drug Company during the week beginning July 2.

July 2. Cash sales for the day per cash register, \$39.40.

Recorded in Illustration No. 3 on the debit side of the Cash account and credit side of the Sales account.

3. Bought syrups and extracts, \$5.00; Coca-Cola, \$12.75; ice cream, \$19.20.

Recorded in Illustration No. 3 on the debit side of the Purchases account and credit side of the Cash account.

Cash sales for the day per cash register, \$50.30.

Recorded in Illustration No. 3 on the debit side of the Cash account and credit side of the Sales account.

5. Returned one gallon of ice cream purchased on the 3d, and received \$2.50, the cost price, for the same.

Recorded in Illustration No. 3 on the debit side of the Cash account and credit side of the Purchases account.

Bought sandwiches, \$12.50; flavoring, \$16.40; ice cream, \$20.00.

Recorded in Illustration No. 3 as explained in § 17, ¶ 1 and § 15, ¶ 2.

(Concluded on page 12)

Cash

1922	July	2	39 40	1922	July	3	36 95
		3	50 30			5	48 90
		5	2 50			7	150
		6	21 50				87 55
		7	62 50				
			76 20				
Purchases							

1922	July	3	36 95	1922	July	5	2 50
		5	48 90				
			85 45				
Sales							

1922	July	7	150	1922	July	2	39 40
						3	50 30
						6	21 50
						7	62 50
							73 70

Illustration No. 3, A Ledger Containing Three Accounts.

EXPLANATION. The information given in connection with each transaction and the method of recording it is sufficient explanation of this illustration.

(Continued from page 11.)

July 6. Cash sales for the day per cash register, \$21.50.

Recorded in Illustration No. 3 as explained in § 15, ¶ 1 and § 18, ¶ 2.

7. Gave James Smith \$1.50 for one-half gallon of ice cream which he returned because it was received in bad condition.

Recorded in Illustration No. 3 as explained in § 18, ¶ 1 and § 15, ¶ 2.

Cash sales for the day per cash register, \$62.50.

Recorded in Illustration No. 3 as explained in § 15, ¶ 1 and § 18, ¶ 2.

§ 20. A Trial Balance is a list of the open accounts in the ledger with the balance or the total debits and total credits set opposite the name of each account; its purpose is to test the equality of the debits and credits recorded in the ledger. The Trial Balance is usually prepared on paper with two money columns ruled at the right so that the debit totals or debit balances may be entered in one column, and the credit totals or credit balances in the other. The test is satisfactory when the total of the debit column on the Trial Balance equals the total of the credit column. Illustration No. 4 shows a Trial Balance of totals, and No. 5 a Trial Balance of balances prepared from the ledger in Illustration No. 3.

Central Drug Co.
Trial Balance July 7, 192

Cash	17620	8735
Purchases	8585	250
Sales	150	17370
	26355	26355

Illustration No. 4, A Trial Balance of Totals.

EXPLANATION. This Trial Balance is prepared from the ledger in Illustration No. 3. The page in the ledger and the name of each account are written at the left, and the total debits and total credits are written in the two money columns at the right. If the Trial Balance is footed before it is ruled, the totals are entered in small pencil figures in the same manner as the totals in Illustration No. 3. By comparing Illustration No. 4 with Illustration No. 3, the student will observe that it is necessary to add the accounts in the ledger and write the totals in small pencil figures before preparing the Trial Balance.

Central Drug Co.
Trial Balance July 7, 192

Cash	8885	
Purchases	8335	
Sales		17220
	17220	17220

Illustration No. 5, A Trial Balance of Balances.

EXPLANATION. It is customary, when taking a Trial Balance of balances, to write the balance in the explanation column on the larger side of the account in the ledger. These balances are not shown in Illustration No. 3 because they are not necessary in taking a Trial Balance of totals.

Exercise No. 1, Recording Transactions Direct in the Ledger.

Record on ledger paper* (paper with the same ruling as Illustration No. 2) the following transactions performed during the month of January by J. W. McCormick, a dealer in musical instruments. Write the names of the three accounts before recording the transactions; allow twelve lines for Cash, eight lines for Purchases and twelve lines for Sales. The space given for each account includes sufficient lines for recording the transactions and one line for the name of the account. If one sheet of ledger paper is used for the three accounts, separate them by double red lines as in Illustration No. 3.

In practice, transactions are recorded separately from the ledger and transferred to it, but for the purpose of instruction the first few exercises are recorded direct in the ledger.

Jan. 1. Sold for cash one piano, \$450.00.

Record on the debit side of the Cash account and on the credit side of the Sales account in the same manner as the transaction for July 2 is recorded in Illustration No. 3.

2. Bought for cash one hundred Victrola records, \$110.00.

Record on the debit side of the Purchases account and on the credit side of the Cash account in the same manner as the first transaction for July 3 is recorded in Illustration No. 3.

5. Sold for cash one Victrola, \$225.00; records, \$10.50.

Record in one amount on the debit side of the Cash account and on the credit side of the Sales account in the same manner as the second transaction for July 3 is recorded in Illustration No. 3.

7. Sold for cash one piano, \$350.00.

10. Sold for cash one player-piano, \$500.00; rolls, \$22.50.

12. Bought for cash three Victrolas, \$320.00; paid freight on the same, \$52.50.

14. Sold for cash one Victrola, \$200.00; records, \$42.50.

17. Gave J. O. Smith \$1.50 for a damaged record which he purchased on the 14th and returned.

Debit § 18, ¶ 1; credit § 15, ¶ 2.

18. Sold for cash one Victrola, \$50.00; records, \$6.50.

20. Bought for cash one piano, \$225.00; paid freight and drayage on the same, \$42.65.

23. Sent the damaged record returned to us on the 17th to the distributing agent of the records and received 90c for the same.

Debit § 15, ¶ 1; credit § 17, ¶ 2.

27. Sold for cash one Victrola, \$75.00; records, \$10.50.

Bought for cash one piano, \$300.00; paid freight on the same, \$48.65.

30. Received \$3.50 from the railroad company to pay for overcharge on freight paid on the 20th.

Debit § 15, ¶ 1; credit § 17, ¶ 2.

31. Sold for cash one piano, \$350.00.

When these transactions have been recorded in the three accounts, add the debit side and the credit side of each account, enter the totals in small pencil figures as in Illustration No. 3, and prove the equality of the debits and credits by a Trial Balance of totals as in Illustration No. 4.

Exercise No. 2, Recording Transactions Direct in the Ledger.

Record on ledger paper* the following transactions performed during the week beginning May 28 by Charles Smith, a butcher. Allow space for the accounts as follows: Cash, ten lines; Purchases, eight lines; Sales, nine lines.

May 28. Cash sales for the day per cash register, \$42.85.

(Concluded on page 14)

*NOTE. The exercises in the text are not to be recorded in the books of account provided for the practice set. Unless special blanks, marked "For Exercises in the Text," are provided, the student should use loose sheets of ruled paper. Present exercises for approval as directed on the direction card or as directed by the instructor.

Exercise No. 2—(Continued from page 13.)

- May 29. Bought meat for cash, \$22.50.
Cash sales for the day per cash register, \$35.60.
30. Paid the express company \$20.00, \$18.75 of which was for a cash purchase of lard and \$1.25 for express charges on the same.
Cash sales for the day per cash register, \$45.25.
31. Gave Mrs. R. K. Polk \$1.10 cash for a steak which she returned because it was not satisfactory.
- June 1. Bought meat for cash, \$57.50.
Cash sales for the day per cash register, \$49.90.
2. Received \$3.50 from the Central Provision Co. for lard which we returned as per agreement.
Bought meat for cash, \$36.40.
Cash sales for the day per cash register, \$72.19.

When these transactions have been recorded in the three accounts, add the debit side and the credit side of each account, enter the totals in small pencil figures, and prove the equality of the debits and credits by a Trial Balance of totals as in Illustration No. 4.

Exercise No. 3, Recording Transactions Direct in the Ledger.

Record on ledger paper the following transactions performed during the week beginning September 15 by Shepherd Young, who conducts the Central Cafeteria. Allow space for the accounts as follows: Cash, eleven lines; Purchases, nine lines; Sales, ten lines.

- Sept. 15. Paid cash for meat, \$25.50; bread, \$4.75.
Received for cash sales, \$37.55.
16. Paid cash for vegetables, \$12.80.
Received for cash sales, \$32.65.
17. Paid cash for canned goods, \$13.75; meat, \$15.00; bread, \$5.50.
Received for cash sales, \$29.90.
18. Received cash, \$2.50, for canned goods returned by us as per agreement.
Received for cash sales, \$31.55.
19. Paid cash for meat, \$9.75; bread, \$3.40.
Received for cash sales, \$27.90.
20. Paid cash for vegetables, \$13.50; bread, \$5.60; butter, \$7.55.
Received for cash sales, \$44.59.

Complete in the same manner as instructed at the conclusion of Exercises Nos. 1 and 2.

§ 21. A Book of Original Entry is one ruled to contain a record of business transactions arranged chronologically, that is, in the order of their occurrence. The information given in connection with the record of each transaction in a book of original entry should be arranged so that the value received and the value parted with may be transferred to the accounts in the ledger. The method of recording transactions in book of original entry is illustrated and explained in this and succeeding chapters.

The purpose of a book of original entry is to provide a basis for the information recorded in the ledger. When transactions are recorded direct in the ledger it is difficult to detect errors because there is no complete record of each transaction in one place. Should the bookkeeper fail to record a debit or a credit he might have difficulty in locating the error.

§ 22. The Journal is a book of original entry. The ruling is shown in Illustration No. 6 and the method of recording transactions on this ruling, in Illustration No. 7. A comparison of these two illustrations shows that space is provided for the name of the account debited and the amount (value received), the name

the account credited and the amount, and the explanation. This explanation is for the information of the bookkeeper or any person who may have occasion to examine the record. The record should show a distinction between debits and credits to facilitate posting.

The following transactions affecting the purchases and sales of merchandise for cash, performed by the soda fountain department of the Central Drug Co. during

July 2, 192

1	Cash	39 40	
1	Sales		39 40
	Cash sales for the day		
	3		
1	Purchases	36 95	
1	Cash		36 95
	Bought syrups and Coca Cola for cash		
	3		
1	Cash	50 30	
1	Sales		50 30
	Cash sales for the day		
	5		
1	Cash	2 50	
1	Purchases		2 50
	Received \$2.50 for 1 gal. ice cream returned		
	5		
1	Purchases	48 90	
1	Cash		48 90
	Bought ice cream and sandwiches for cash		
	6		
1	Cash	21 50	
1	Sales		21 50
	Cash sales for the day		
	7		
1	Sales	1 50	
1	Cash		1 50
	Paid \$1.50 for 1/2 gal. ice cream returned		
	7		
1	Cash	62 50	
1	Sales		62 50
	Cash sales for the day		

Illustration No. 7, A Journal Page with Transactions Recorded on It.

EXPLANATION. The transactions shown recorded here are outlined on pages 17 and 18. The ledger accounts resulting from posting are shown in Illustration No. 8.

the week beginning July 2, are shown recorded in the journal in Illustration No. 7 and posted to the ledger in Illustration No. 8. These transactions are the same as those beginning on page 11.

July 2. Cash sales for the day per cash register, \$39.40.

Recorded in the first entry in Illustration No. 7. The position of the writing and figures shows that Cash is debited and Sales credited.

3. Bought syrups and extracts, \$5.00; Coca-Cola, \$12.75; ice cream, \$19.20.

Recorded in the second entry in Illustration No. 7. The position of the writing and figures shows that Purchases is debited and Cash credited.

Cash sales for the day per cash register, \$50.30.

Recorded in the third entry in Illustration No. 7. The position of the writing and figures shows that Cash is debited and Sales credited.

5. Returned one gallon of ice cream purchased on the 3d, and received \$2.50, the cost price, for the same.

Recorded in the fourth entry in Illustration No. 7. \$ 15, ¶ 1 is debited and \$ 17, ¶ 2 credited.

(Concluded on page 18.)

Cash

192	July	2		\$1	39 40	192	July	3		\$1	36 95
		3		\$1	50 30			5		\$1	48 90
		5		\$1	2 50			7		\$1	21 50
		6		\$1	62 50						
		7		\$1	72 50						

Purchases

192	July	3		\$1	36 95	192	July	5		\$1	2 50
		5		\$1	48 90						

Sales

192	July	7		\$1	1 50	192	July			\$1	39 40
										\$1	50 30
										\$1	21 50
										\$1	62 50
										\$1	72 50

Illustration No. 8, A Ledger with Three Accounts Resulting from Posting.

EXPLANATION. The accounts in this ledger are the result of posting the transactions recorded in the journal, Illustration No. 7. A comparison of the two illustrations shows that each amount entered in the first column of the journal is posted to the debit side of the account written on the same line with it, and each amount entered in the second column of the journal is posted to the credit side of the account written on the same line with it. The posting is indicated by writing the journal page (1) in the ledger, and the ledger page (1) in the journal.

(Continued from page 17.)

- July 5. Bought sandwiches, \$12.50; flavoring, \$16.40; ice cream, \$20.00.
Recorded in the fifth entry in illustration No. 7. § 17, ¶ 1 is debited and § 15, ¶ 2 credited.
6. Cash sales for the day per cash register, \$21.50.
Recorded in the sixth entry in Illustration No. 7. § 15, ¶ 1 is debited and § 18, ¶ 2 credited.
7. Gave James Smith \$1.50 for one-half gallon of ice cream which he returned because it was received in bad condition.
Recorded in the seventh entry in Illustration No. 7. § 18, ¶ 1 is debited and § 15, ¶ 2 credited.
- Cash sales for the day per cash register, \$62.50.
Recorded in the eighth entry in Illustration No. 7. § 15, ¶ 1 is debited and § 18, ¶ 2 credited.

Exercise No. 4, Recording Transactions in the Journal and Posting.

Record on journal paper* (paper with the same ruling as Illustration No. 6) the following transactions performed during the month of March by Robert Smith, a dealer in used automobiles:

- March
1. Sold A. L. Lott a used Chandler for \$840.00 cash.
 3. Bought a used Ford from W. H. Roland for \$250.00 cash.
 8. Sold W. W. Jones a used 1920 Franklin for \$925.00 cash.
 15. Bought a used Packard from Robert MacFarland for \$980.00 cash.
 19. Sold Davis Bros. the used Packard purchased on the 15th, for \$1,200.00 cash.
 25. Bought a used Hudson from David Browning at Danville for \$950.00 cash; paid Charlie Smith \$25.00 for delivering this car.
 31. Sold B. M. Morris the used Hudson purchased on the 25th, for \$1,250.00 cash.

When the above transactions have been recorded in the journal as instructed, open accounts on a sheet of ledger paper with Cash (8), Purchases (7), and Sales (8), allowing for each account the number of lines indicated by the number given in parenthesis after the name of the account; post the transactions, and prove the posting by a Trial Balance of balances.

Exercise No. 5, Recording Transactions in the Journal and Posting.

Record on journal paper* the following cash transactions performed by the H. F. Ritter Electric Co. during the month of August:

- Aug.
1. Sold M. N. Stewart a No. 9 electric washer, \$135.50.
 2. Sold A. L. Graham three Solvay electric fans, \$99.75.
 5. Bought three electric lamps from the General Electric Co., \$85.70.
 9. Received \$275.00 from the Dowell Construction Co. in payment for one No. 10 electric washer.
 12. Bought two electric washers from the General Electric Co., \$325.00.
 16. Sold Mrs. J. M. Taylor one electric iron, \$13.50.
 18. Sold Mrs. A. L. Day one electric lamp, \$42.50.
 21. Gave H. L. Jones \$5.50 for an electric iron which he purchased for cash and returned per agreement.

(Concluded on page 19.)

*See note at bottom of page 13.

(Continued from page 18.)

- Aug. 25. Sold Dr. C. C. Doyle one No. 5 electric pad, \$22.50; one No. 6 Violet Ray machine, \$35.00.
26. Sold E. E. Erblang one No. 10 electric flashlight, \$2.50; one extra battery for the same, 50c.
28. Received \$12.50 from the General Electric Co. for a lamp which we purchased from them on the 5th, but returned because it was not the kind ordered.
31. Gave E. E. Erblang \$3.00 for the flashlight and battery sold him on the 26th and returned per agreement.

When the above transactions have been recorded in the journal as instructed, open accounts on a sheet of ledger paper with Cash (12), Purchases (6), and Sales (11), allowing for each account the number of lines indicated; post the transactions, and prove the posting by a Trial Balance of totals.

Exercise No. 6, Recording Transactions in the Journal and Posting.

Record on journal paper the following transactions performed during the month of March by Martin R. Daley, a retail furniture dealer:

- March 1. Sold for cash one bedroom suite, \$175.00; one dining room suite, \$196.50.
5. Paid cash for furniture purchased, \$209.60.
10. Paid \$18.75 cash, freight on furniture purchased.
12. Received cash for six rugs sold, \$205.75.
Paid cash for furniture purchased, \$172.60.
15. Gave a customer cash, \$5.50, for a chair returned as per agreement.
18. Paid cash for furniture purchased, \$82.50.
21. Received \$14.75 cash for three small rugs returned by us to the seller as per agreement.
25. Sold for cash one refrigerator, \$55.00; one gas range, \$47.50; one kitchen cabinet, \$65.00.
30. Paid the American Railway Express Co. cash, \$2.50, for express charges on furniture purchased.

When the above transactions have been recorded in the journal as instructed, open accounts on a sheet of ledger paper with Cash (10), Purchases (9), and Sales (7), allowing for each account the number of lines indicated; post the transactions and prove the posting by a Trial Balance of balances.

QUESTIONS

1. What is the purpose of an account?
2. In what order are the transactions recorded?
3. State the two methods of recording transactions.
4. How is a cash sale recorded (a) in the journal and (b) direct in the ledger?
5. Which is preferable, a bound book or a loose-leaf book?
6. If a merchant wishes to know the total sales of merchandise for any given number of months, from which book of account would he obtain the information? from what account?
7. If a drug store has five departments, would it be necessary to maintain a Cash account for each department? Give reasons for your answer.
8. Would it be necessary to keep a separate record of the sales made by each of the five departments mentioned in Question No. 7?

9. If you were keeping books for a local merchant and, when you proved cash at the close of January 10, you found that you had \$2.00 more cash than the amount shown by the Cash account, what entry would you make for the \$2.00?
10. Why will the Sales account always show a credit balance?
11. Why will the Purchases account always show a debit balance?
12. Why will the Cash account always show a debit balance?
13. Why does the Trial Balance prove that the total debits equal the total credits in the ledger?
14. If \$10.00 cash is received for a sale of merchandise and the amount is erroneously entered on the credit side of the Purchases account instead of the Sales account, how would it affect the Trial Balance?
15. How would the error mentioned in Question 14 affect the balance of the Purchases account? the Sales account?
16. If the debits and credits on the Trial Balance are not equal, how does the bookkeeper who has recorded the transactions separate from the ledger ascertain the error?
17. Why is it advisable to give an explanation of each entry in the journal?
18. If \$10.10 cash is received for merchandise sold and recorded in the journal as Cash, Dr., \$10.00, and Sales, Cr., \$10.10, what effect will this have on the Trial Balance if the entry is posted as recorded?
19. What does a telephone company sell?
20. Would these sales be recorded in a Sales account?
21. Would the bookkeeper for a city government have a Sales account in his ledger?
22. Would the farmer who keeps a record of the transactions he performs have a Sales account in his ledger?
23. If a merchant discontinues business and sells all the merchandise which he owns, what will the balance of the Sales account show?
24. Under the conditions mentioned in Question No. 23, what would the balance of the Purchases account show?
25. If a grocer buys an automobile truck to be used in delivering merchandise, would the value of this truck be debited to the Purchases account? Give reasons for your answer.

Chapter III

RECORDING TRANSACTIONS—Continued

§ 25. Purchases and Sales of Merchandise on Account. When the owner of a business purchases merchandise with the agreement that it is to be paid for at a later date, he incurs an obligation or a liability. The transaction will be recorded in the same manner as if he had paid cash except the name of the person or business from whom the merchandise is purchased will be credited in place of cash; when the obligation is paid as per agreement, the account with the person or business will be debited and Cash credited. The value received in the first transaction is the merchandise purchased, and the value parted with, the promise to pay the liability incurred. The value received in the second transaction is the cancellation of the obligation, and the value parted with, the cash.

When the owner of a business sells his merchandise with the agreement that it is to be paid for at a later date, he extends credit to the one who purchases the merchandise. A transaction of this nature will be recorded in the same manner as when cash is received, except that the name of the person who purchases the merchandise will be debited instead of Cash; when the owner of the business receives cash from the one to whom he has extended credit, he debits Cash and credits the account with the person. The value received in the first transaction is the promise of the person to whom the merchandise is sold, and the value parted with, the merchandise; the value received in the second transaction is cash, and the value parted with, the cancellation of the obligation of the one to whom the merchandise was sold.

Purchases and sales of merchandise where cash is not involved are referred to as "on account," possibly because the account with the person takes the place of cash until the amount is paid. The owner of the business regards those who extend credit to him as his creditors, and those to whom he extends credit as his customers; the term "customer" also applies to those from whom cash is received at the time the sale is made.

ACCOUNTS WITH PERSONS

§ 26. Accounts with Persons are those required when credit is extended to the business through the purchase of merchandise, or when the business extends credit to its customers through the sale of merchandise. Accounts with persons are divided into two classes: one (accounts with customers) shows the result of transactions with the persons to whom the business sells merchandise or other assets on account, usually referred to as "accounts receivable"; and the other (accounts with creditors) shows the result of transactions with those from whom merchandise is purchased on account, usually referred to as "accounts payable."

ACCOUNTS RECEIVABLE

§ 27. The Purpose of an Account with a Customer is to show the balance due from the customer as a result of the transactions in which the business sells merchandise to him on account. When a customer pays cash for merchandise, it is not necessary to record the transactions in an account with him; but when he buys and does not pay cash, it is necessary to record the date and amount of the sale in an account with him so that the owner may know the amount the cus-

tomer owes him when settlement is desired. A separate account is kept with each customer because the owner of the business should know the amount due from each customer to whom he sells on account as well as the total amount due from all customers. The address of each customer should be given in connection with the title of his account; this includes street, number, city, and state.

Debit the Account of Each Customer:

¶ 1. For the selling price of merchandise sold to him on account, and for prepaid transportation charges if the terms of sale do not include delivery.

Credit the Account of Each Customer:

¶ 2. For the cash or other assets received from him to apply on account, and for the amount of any allowance or deduction granted to him. Partial payments are indicated as explained in ¶ 5.

¶ 3. *The Balance of an Account Receivable* shows the amount the customer owes the business. It is one of the assets of the business. The debit side will be the larger unless the customer should pay for more than he has purchased. When the two sides are equal, his account is said to be in balance; this indicates that he has paid for all the merchandise sold him on account.

¶ 4. *Ruling an Account Receivable.* When the account with a customer is in balance, it should be ruled with a single red line on each side, across the money columns only, as in the account with Walter Rogers in Illustration No. 9; the lines should be drawn on the same blue line on each side when possible. If there are a number of debits or credits, the two sides should be footed with small pencil figures to prove that they are equal before ruling as in the account with People's Hotel on page 71. The use of red ink for ruling is not arbitrary but it is customary for bookkeepers to use it, hence its use in the illustrations.

¶ 5. *Partial Payments.* A debtor has the right, by law, to indicate on what item his payment shall be applied. Thus if he owes several amounts and wishes the payment to be applied to any one particular amount, and indicates this, the credit must be applied on that amount. In cases of this kind the bookkeeper should indicate the amount on which the credit is applied by placing a letter at the left of the amount of the item on the debit side, and placing the same letter to the left of the amount of each payment on the credit side. It is best to begin with "a" and continue with as many letters as may be required for payments on different debits. The letters are not necessary when an item is paid in full by one payment, and the account is ruled. If the payments are indicated by letter as explained, the bookkeeper can ascertain the amount due for any one sale without referring to a book of original entry. The use of the letters as explained here is illustrated in the personal accounts on pages 70, 71 and 72.

Those to whom the business sells merchandise on account are referred to as "trade customers" and those from whom it buys merchandise on account as "trade creditors." Property other than merchandise may be bought or sold on account; such sales and purchases are recorded in personal accounts in the same manner as sales and purchases of merchandise.

ACCOUNTS PAYABLE

§ 28. **The Purpose of an Account with a Creditor** is to show the balance due from the creditor as a result of the transactions in which the business buys merchandise from him on account. When merchandise is purchased for cash, no account with the one from whom it is purchased is necessary because the transaction is completed; but when the business buys on account, it is necessary to keep a record of such transactions in order that the owner may know the amount he

owes at the time settlement is made. A separate account is kept with each creditor because the owner of the business should know the amount he owes each creditor as well as the total amount due all creditors.

Debit the Account of Each Creditor:

¶ 1. For cash or other assets of the business given him to apply on account, and for any allowance or deduction granted to the business by him. Partial payments are indicated as explained in § 27, ¶ 5.

Credit the Account of Each Creditor:

¶ 2. For the cost of merchandise purchased from him on account, and for prepaid transportation charges if the terms of purchase do not include delivery.

¶ 3. *The Balance of an Account Payable* shows the amount the business owes the creditor. The credit side will be the larger unless the business should pay a creditor more than it owes him. The balance due a creditor is one of the verbal obligations of the business, hence a liability.

¶ 4. *Ruling an Account Payable.* The account with a creditor is ruled in the same manner as an account with a customer, as described in § 27, ¶ 4.

¶ 5. *Partial Payments* should be indicated by letter as explained in § 27, ¶ 5. This enables the bookkeeper to ascertain the balance due on any one purchase without referring to a book of original entry.

RECORDING TRANSACTIONS DIRECT IN THE LEDGER

§ 29. **Transactions** with customers and creditors on account may be recorded direct in the ledger in the same manner as cash transactions. When credit is extended to a customer of the business, his promise to pay the amount of the sale is recorded on the debit side of his account as the value received, and the value of the merchandise sold, on the credit side of the Sales account in the same manner as a cash sale. When credit is extended to the business, the cost of the merchandise purchased is recorded on the debit side of the Purchases account in the same manner as a cash purchase, and the same amount is recorded on the credit side of the creditor's account because the promise of the owner of the business to pay for the merchandise bought is regarded as the value parted with. The account with a customer remains on the ledger as an asset, and that with a creditor as a liability, until settlement is made, either with cash or some other asset.

The following transactions affecting the purchases and sales of merchandise for cash and on account, performed by J. H. Henderson, a retail furniture dealer, during the month of November, are shown recorded direct in accounts with Cash, customers, creditors, Purchases, and Sales in Illustration No. 9 and a Trial Balance of totals made from the accounts, in Illustration No. 10.

- Nov. 1. Purchased furniture from the Consolidated Furniture Co., Grand Rapids, on sixty days' time, \$215.75.
2. Sold C. H. Powers, Arlington, on account, one bedroom suite, \$125.00.
6. Sold Walter Rogers, City, on account, one hatrack, \$22.50.
12. Received cash for furniture sold today, \$625.50.
14. Paid the Consolidated Furniture Co. \$100.00 on account.
20. Received \$22.50 from Walter Rogers in payment for the hatrack sold him on the 6th. •
25. Received \$25.00 from C. H. Powers to apply on account.
26. Sold C. H. Powers on account three leather rockers at \$25.50 each.
29. C. H. Powers returned one rocker and was allowed credit for \$25.50.

Cash

192			192		
Nov. 12		625 50	Nov. 14		100
20		2250			
25		675 00			
C. H. Powers					
Arlington					
192			192		
Nov. 2		125	Nov. 25		25
26		276 50	29		2550
Walter Rogers					
City					
192			192		
Nov. 6		2250	Nov. 20		2250

Consolidated Furniture Co.
Grand Rapids

192		192			
Nov.	14	100	Nov. 1	60 days	215 75

Purchases

192																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																				
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Sales

192		192		
Nov.	29	2550	Nov. 2	125
			6	2250
			12	62550
			26	27650
				274950

Illustration No. 9, A Ledger with Six Accounts.

EXPLANATION. This illustration is in the same form as Illustration No. 3, with the exception of three additional accounts, two with customers and one with a creditor. A comparison of the transactions with the record will show that the value received in each is recorded on the debit side, and the value parted with on the credit side. The "60 days" in the explanation column of the account with the Consolidated Furniture Co. refers to the time when payment is to be made. Since the purchase is on November 1, payment will be expected on December 31. When no specific time of settlement is mentioned, the purchase or sale is sometimes referred to as "on account," and settlement is usually required on the first of the month following the purchase or sale.

J. H. Henderson
Trial Balance, Nov. 30, 1912

Cash	673	100
C. H. Powers	201.50	5050
Consolidated Furniture Co.	1.00	215.75
Purchases	215.75	
Sales	2550	849.50
	1215.75	1215.75

Illustration No. 10, A Trial Balance of Totals.

EXPLANATION. This Trial Balance, which is prepared from the ledger in Illustration No. 9, is the same form as Illustration No. 4 with the addition of two personal accounts. By comparing this illustration with Illustration No. 9, it will be observed that the account with Walter Rogers does not appear on the Trial Balance. The reason for this is that the amounts recorded on the debit and credit sides are equal. This explains the statement in § 20 that only the open accounts in the ledger appear on the Trial Balance.

Exercise No. 7, Recording Transactions Direct in the Ledger.

Record on ledger paper* the following transactions performed during the month of October by J. J. Hammond, a retail shoe dealer. Allow space for the accounts as follows: Cash, ten lines; Purchases, ten lines; Sales, ten lines; J. C. Mason, Walter Love, J. C. Miller, Robert Whitacre, W. O. Crosswhite, Davis Bros., and Smith Shoe Co., each four lines. Give each customer and creditor a local address.

- Oct. 2. Bought shoes from W. O. Crosswhite on account, \$187.65.
 3. Sold J. C. Mason on account one pair of shoes, \$11.50.
 5. Bought shoes from Davis Bros. on account \$281.36.
 7. Received for cash sales of shoes, \$127.50.
 9. Paid W. O. Crosswhite \$100.00 on account.
 10. Sold Walter Love on account six pairs of shoes, \$56.50.
 11. Bought shoes from the Smith Shoe Company on sixty days' time, \$211.85.
 12. Received for cash sales of shoes, \$97.50.
 13. Paid W. O. Crosswhite \$87.65 in full of account.
 14. Sold J. C. Miller on account two pairs of shoes, \$25.25.
 16. Received for cash sales of shoes, \$106.95.
 17. Allowed Walter Love credit for one pair of shoes returned, \$17.50.
 18. Bought shoes from W. O. Crosswhite on account, \$321.85.
 19. Paid \$82.50 for shoes purchased and delivered today.
 20. Paid Mrs. W. C. Davis \$6.00 for a pair of shoes returned for which she had paid cash when sold to her.
 23. Received \$39.00 from Walter Love in full of account.
 25. Paid the Smith Shoe Company \$25.00 on account.
 26. Received for cash sales of shoes, \$88.90.
 27. Paid the Santa Fe Railroad \$65.50 for freight on shoes purchased.
 28. Sold Robert Whitacre one pair of shoes on account, \$15.00.
 30. Bought shoes from the Smith Shoe Company on sixty days' time, \$175.75.
 31. Davis Bros. allowed us credit for \$62.50 for shoes returned to them.

When these transactions have been recorded in the accounts, prove the equality of the debits and credits by a Trial Balance of totals.

*See note at the bottom of page 13.

Exercise No. 8, Recording Transactions Direct in the Ledger.

Record on ledger paper the following transactions performed by F. B. Bellis, a retail candy merchant, during the week beginning July 5. Allow space for the accounts as follows: Cash, ten lines; Purchases, ten lines; Sales, ten lines; Candy Kitchen, seven lines; Robert Farland, five lines; Norway Candy Co., six lines; R. H. Hunter, five lines. Give each person a local street address.

- July 5. Purchased from the Candy Kitchen, City, on account, \$65.84.
Cash sales for the day, \$62.48.
6. Paid cash for nuts purchased, \$9.50.
Cash sales for the day, \$55.80.
7. Sold Robert Farland, City, on account, six boxes of candy at* \$2.75.
Purchased from the Norway Candy Co., City, on account, \$32.75.
Cash sales for the day, \$41.90.
8. Paid the Candy Kitchen \$50.00 on account.
Paid a customer \$1.00 for a box of candy which he had purchased for cash and returned per agreement.
Cash sales for the day, \$41.80.
9. Received \$10.00 from Robert Farland on account.
Sold R. H. Hunter, City, on account, twelve boxes of candy at* \$2.25.
Purchased from the Candy Kitchen, City, on account, \$61.50.
Cash sales for the day, \$52.80.
10. Paid cash for chewing gum, \$5.00.
Paid the Candy Kitchen \$25.00 on account.
Purchased from the Norway Candy Co., City, on account, \$26.95.
Returned to the Candy Kitchen six boxes of candy purchased on the 9th and received credit for the same at \$1.75 per box, the cost price.
Cash sales for the day, \$101.19.

When these transactions have been recorded in the accounts, prove the equality of the debits and credits by a Trial Balance of balances.

RECORDING TRANSACTIONS IN THE JOURNAL

§ 30. **Transactions** with customers and with creditors may be recorded in the journal in the same manner as cash transactions. When credit is extended to a customer, his name is written in the journal as the account debited, and the Sales account credited; when credit is extended to the business, the Purchases account is debited, and the name of the creditor is written as the account credited. The owner should have a record of the articles sold on account; this information may be obtained by retaining a copy of the list given the customer, or writing the names of the articles in connection with the explanation in the journal. It is not necessary to itemize the articles purchased in the explanation of the transaction in the journal because the creditor provides a list of these articles.

The following transactions affecting the purchases and sales of merchandise for cash and on account, performed by J. H. Henderson, a retail furniture dealer, during the month of November, are shown recorded in the journal in Illustration No. 11 and posted to the ledger in Illustration No. 12. These transactions are the same as those on page 23.

- Nov. 1. Purchased furniture from the Consolidated Furniture Co., Grand Rapids, on sixty days' time, \$215.75.
2. Sold C. H. Powers, Arlington, on account, one bedroom suite, \$125.00.
6. Sold Walter Rogers, City, on account, one hatrack, \$22.50.

(Concluded on page 28.)

*NOTE. The word "at," appearing before the price, indicates that this price is per unit; if this word does not appear, the price given applies to the quantity mentioned. "Six boxes candy at \$2.75" means that the amount of the sale is \$16.50. "Six boxes candy, \$2.75," means that the amount of the sale is \$2.75.

November, 1, 192

Purchases	21575	
Consolidated Furniture Co.		21575
Bought furniture on 60 days time		
C. H. Powers	125	
Sales		125
Sold 1 bedroom suite on account.		
6		
Walter Rogers	2250	
Sales		2250
Sold 1 hat rack on account.		
12		
Cash	62550	
Sales		62550
Cash sales of furniture		
14		
Consolidated Furniture Co.	100	
Cash		100
Paid cash to apply on account		
20		
Cash	2250	
Walter Rogers		2250
Received cash in full of account		
25		
Cash	25	
C. H. Powers		25
Received cash to apply on account		
26		
C. H. Powers	7650	
Sales		7650
Sold on account 3 rockers at \$25.50		
29		
Sales	2550	
C. H. Powers		2550
Allowed credit for one rocker returned		

Illustration No. 11, A Journal Page with Transactions Recorded on It.

EXPLANATION. The numbers in the folio column indicate the page of the ledger to which each entry is posted. These numbers are not entered when the transactions are recorded in the journal, but at the time the amounts are posted to the ledger accounts.

(Continued from page 26.)

- Nov. 12. Received cash for furniture sold today, \$625.50.
 14. Paid the Consolidated Furniture Co. \$100.00 on account.
 20. Received \$22.50 from Walter Rogers in payment for the hatrack sold him on the 6th.
 25. Received \$25.00 from C. H. Powers to apply on account.
 26. Sold C. H. Powers on account three leather rockers at \$25.50 each.
 29. C. H. Powers returned one rocker and was allowed credit for \$25.50.

Cash

¹⁹² Nov. 12		\$1	625 50	¹⁹² Nov. 14		\$1	100
20		\$1	22 50				
25		\$1	25				
C. H. Powers							
Arlington							
¹⁹² Nov. 2		\$1	125	¹⁹² Nov. 25		\$1	25
26		\$1	276 50	29		\$1	25 50
Walter Rogers							
City							
¹⁹² Nov. 6		\$1	22 50	¹⁹² Nov. 20		\$1	22 50
Consolidated Furniture Co							
Grand Rapids							
¹⁹² Nov. 14		\$1	100	¹⁹² Nov. 1	60 days	\$1	215 75
Purchases							
¹⁹² Nov. 1		\$1	215 75				
Sales							
¹⁹² Nov. 29		\$1	25 50	¹⁹² Nov. 2		\$1	125
				6		\$1	22 50
				12		\$1	625 50
				26		\$1	276 50

Illustration No. 12, A Ledger with Six Accounts Resulting from Posting.

EXPLANATION. The transactions in this ledger were not recorded direct in it, but were recorded in the journal shown in Illustration No. 11 and posted, as indicated by the figures in the folio column of each account. Compare with Illustration No. 9 and note the additional information. A Trial Balance of totals taken from this ledger would be the same as Illustration No. 10

Exercise No. 9, Recording Transactions in the Journal and Posting.

Record on journal paper the following transactions performed by the Central Paper Co. during the month of February. Give each customer and creditor a local address.

- Feb. 1. Purchased paper from the Whiting Paper Co. on account, \$350.00.
 2. Sold paper to the Federal Press on account, \$126.50.
 3. Received \$352.10 for paper sold today.
 5. Purchased envelopes from the U. S. Envelope Co. on account, \$207.60.
 6. Received \$126.50 from the Federal Press in full of account.
 7. Sold paper to C. J. Krehbiel & Co. on account, \$200.25.
 9. Paid the Whiting Paper Co. \$150.00 on account.
 12. Purchased paper from the Whitaker Paper Co. on account, \$409.37.
 14. Paid \$106.16 for freight and drayage bills to date.
 16. Sold paper to C. W. Ogden on account, \$98.66.
 19. Received credit from the U. S. Envelope Co. for \$36.50, value of envelopes returned by us per agreement.
 20. Received for cash sales of paper today, \$191.96.
 21. Received \$200.25 from C. J. Krehbiel & Co. in full of account.
 23. Sold paper and envelopes to the Federal Press on account, \$161.52.
 24. Allowed C. W. Ogden credit for paper returned, \$12.50.
 26. Paid the Herrlinger Paper Co. \$76.60 for paper delivered today.
 27. Sold paper and envelopes to C. J. Krehbiel & Co. on account, \$112.60.
 28. Paid the U. S. Envelope Co. balance due on account, \$171.10.
 Received \$40.00 from C. W. Ogden on account.

When the above transactions have been recorded in the journal as instructed, open accounts on a sheet of ledger paper with Cash (9), Purchases (9), Sales (11), Federal Press (5), C. J. Krehbiel & Co. (5), C. W. Ogden (5), Whiting Paper Co. (5), U. S. Envelope Co. (5), Whitaker Paper Co. (5), allowing for each account the number of lines indicated; post the transactions, and prove the posting by a Trial Balance of totals.

Exercise No. 10, Recording Transactions in the Journal and Posting.

Record on journal paper the following transactions performed during the month of May by J. O. Cutshaw, an automobile tire dealer:

- May 1. Purchased from the Goodyear Tire Co., City, on account, \$355.00.
 3. Received cash for four Goodyear 33 x 4 cord tires, \$215.60.
 5. Purchased from the Goodrich Tire Co., City, on account, \$525.50.
 Sold the Central Grocery Co., City, on account, two Ford tires, \$32.65.
 7. Received cash for one 35 x 5 Silvertown cord tire, \$67.50.
 10. Paid the Goodyear Tire Co. \$200.00 on account.
 12. Sold I. W. Walker, City, on account, four Miller cord tires at \$52.45.
 13. Gave I. W. Walker credit for one of the tires sold him on the 12th and returned by him today per agreement.
 14. Received for cash sales of tires, \$278.50.
 16. Received \$32.65 from the Central Grocery Co. in full of account.
 20. Sold W. L. Watson, City, on account, two 33 x 4 Fisk cord tires at \$48.00; these tires are not carried in stock and were purchased from the Fisk Tire Co., City, on account, at \$36.00.

Record the sale and purchase as separate transactions.

(Concluded on page 30.)

(Exercise No. 10—Continued from page 29.)

- May 25. Sold David Jordan, City, on account, two 32 x 4 Silvertown cord tires at \$41.60 each.
26. Paid the Goodrich Tire Co. \$200.00 on account.
27. Received \$50.00 from W. L. Watson to apply on account.
28. Paid the Fisk Tire Co. \$72.00 in full of account.
Returned to the Goodrich Tire Co. two 32 x 4 fabric tires and received credit for \$34.60.
31. Received for cash sales of tires, \$315.50.
Purchased from the Goodyear Tire Co., City, on account, \$452.40.

When the above transactions have been recorded in the journal as instructed, open accounts on a sheet of ledger paper with Cash (10), Purchases (8), Sales (12), Goodyear Tire Co. (5), Goodrich Tire Co. (4), Fisk Tire Co. (4), Central Grocery Co. (4), I. W. Walker (4), W. L. Watson (4), David Jordan (4), allowing for each account the number of lines indicated; post the transactions, and prove the posting by a Trial Balance of balances.

QUESTIONS

1. If a merchant buys merchandise on March 2, 1922, with the privilege of paying for the same within sixty days, on what date will he be required to pay the amount?
2. Why is it not necessary to keep an account with the person to whom the business sells for cash?
3. Is an amount due from a customer one of the assets of the business?
4. Would you consider the asset of the business described as "Accounts Receivable" as valuable as the asset described as "Cash"? Give reasons.
5. Distinguish between the meaning of the terms "creditor" and "customer."
6. Why is it necessary for the bookkeeper to indicate payments made to apply on merchandise purchased or sold on a designated date?
7. Would it be possible for an account with a customer to show a credit balance? Explain.
8. Would it be possible for an account with a creditor to show a debit balance? Explain.
9. Why is it advisable to rule an account receivable or an account payable when the two sides are equal?
10. Open an account with Robert Jones, a customer of the business, and record the following transactions in it:
 - Jan. 10. Sold merchandise on account, \$425.00.
 15. Received \$100.00 to apply on account.
 20. Sold merchandise on account, \$72.50.
 31. Received \$200.00 to apply on sale of the 10th.
 - Feb. 10. Received \$72.50 in full for sale of Jan. 20.
11. Why is it not necessary to show on the Trial Balance an account which is in balance?
12. What effect would it have on the Trial Balance if an account which shows a debit balance of \$10.00 was omitted because it was ruled by mistake?
13. What accounts are affected when the business receives cash from a customer in part payment of his account?
14. What accounts are affected when cash is paid to a creditor to apply on an account owed him?

15. If a sale made to a customer on account should not be recorded, would this affect the equality of the debits and credits on the Trial Balance?
16. Can you suggest a plan which would avoid the possibility of failing to record transactions in which merchandise is sold on account?
17. If a sale is made to a customer for cash and the transaction is not recorded, how would the bookkeeper detect the error?
18. If cash is received from a customer in payment of his account, and the transaction is not recorded, how would the bookkeeper detect the error?
19. If merchandise is purchased from a creditor on account and the transaction is not recorded, how would the bookkeeper detect the error?
20. If cash is paid for merchandise purchased and the transaction is not recorded, how would the bookkeeper detect the error?
21. If a sale is made to one customer and by mistake debited to another customer, will this affect the equality of the debits and credits on the Trial Balance?
22. How would the bookkeeper detect the error mentioned in the preceding question?
23. If a customer's account, which is not in balance, is ruled by mistake, how would the bookkeeper discover the error?
24. Why is it advisable to indicate the address of a customer on his account in the ledger?
25. If the two sides of the Trial Balance are not equal, how would the bookkeeper ascertain the error?

Chapter IV

RECORDING TRANSACTIONS—Continued

§ 31. **Expense.** Each business has a building or place in which to carry on its operations; this building or place of business is provided with heat and light; modern business requires the use of the telephone, telegraph, and other means of rapid communication; clerks are employed to assist with the purchasing and selling of the merchandise or service which the business sells; bookkeepers and stenographers are required in connection with the office operations; the owner receives a compensation for his services in connection with the operations of the business; these and many other services must be purchased and paid for by the business. Such services are usually referred to as the "operating cost" of the business, also as the "expenses" of the business.

The term "expenses" also includes any material purchased by the business which will be consumed by its use; this class of material includes books of account for use in the office, stationery, wrapping paper, twine, nails for packing cases, etc. The cost of material regarded as expense is usually shown in an account separate from the amounts paid for services; this will be discussed later in more detail.

A record of the payments for operating cost (expenses) is made in one or more expense accounts, depending on the nature of the expenses and the extent of the business operations. When cash is given in payment for services or property which is regarded as an expense item, the account which is to show a record of this operating cost is debited and the Cash account credited; should an asset other than cash be given in payment, the account which shows the value of the asset parted with is credited instead of the Cash account.

EXPENSE ACCOUNT

§ 32. **The Purpose of this Account** is to show the cost of operating the business, that is, its expenses. If all operating cost is debited to one account, the total cost of the business operations will be shown in this account. The debit and credit given below refer to only one Expense account.

Debit the Expense Account:

Credit the Expense Account:

¶ 1. For amounts paid for operating cost as outlined in § 31.

¶ 2. For any adjustments* which reduce the operating cost as shown by the debit side of this account.

¶ 3. *The Balance of this Account* shows the operating cost of the business for the period covered by the debits and credits to the account. The total expense is a deduction from the profit made by the operations of the business.

§ 33. **Capital.** It is usually necessary for the owner of the business to invest cash or other property at the beginning of the business, because, if the business is

*NOTE. The term "adjustment" used in connection with the credits to the Expense account refers to those transactions which reduce the cost of operating the business. If the cost of stamps is debited to the Expense account, and a part of these stamps is sold, Cash or the asset received is debited, and Expense credited because the amount received reduces the expense cost.

to supply a demand, it must have on hand those things which its customers will wish to purchase. The cash or other property which the owner assigns to the operations of the business at its beginning or at any time subsequent thereto is regarded as an investment in the business and referred to as the "invested capital of the business." If the operations of the business are successful—that is, if the costs are less than the income—the interest of the owner (proprietorship) will be increased by this profit; if the result of operating the business is a loss, the interest of the owner (proprietorship) will be decreased by this loss. Once each year it is necessary for the owner of the business to ascertain the profit or loss resulting from the operations of the business during the year because of the governmental tax on income. If the business has been operated at a profit, the owner's capital is increased the amount of this profit; if the business has been operated at a loss, the owner's capital is decreased the amount of the loss.

The owner may, if he desires, withdraw part of his capital; the withdrawal of a part of his capital will decrease his proprietorship in the business. Should the owner take cash, merchandise or other assets from the business as a remuneration for his services in connection with the operations of the business, the value of these withdrawals is debited to Expense in the same manner as amounts paid for the salaries of clerks and other employees. If desired, the owner may be debited for the value of the property which he takes from the business and credited with the salary he is to receive as compensation; the title of this account would be the name of the owner with the word "personal" written after it. The owner's personal account is debited with withdrawals and credited with the salary; the balance, if a debit, will show the amount he has withdrawn in excess of his salary, and if a credit, the amount of salary yet to be withdrawn. Under no circumstances should withdrawals for services be debited to the Capital account.

CAPITAL ACCOUNT

§ 34. **The Purpose of this Account** is to show the result of transactions which the business has with the owner of the business as they relate to investments and withdrawals.

Debit the Capital Account:

- ¶ 1. For debts of the owner assumed at the beginning of the business.
- ¶ 2. For amounts withdrawn from the capital invested.
- ¶ 3. For the net loss at the end of the business year.

Credit the Capital Account:

- ¶ 4. For cash or other assets invested at the beginning of the business.
- ¶ 5. For subsequent investments.
- ¶ 6. For the net profit at the end of the business year.

¶ 7. *The Balance of this Account*, shows the owner's interest in the business, that is, his proprietorship or net investment.

RECORDING TRANSACTIONS DIRECT IN THE LEDGER

§ 35. **The Complete Operations** of a business include transactions which relate to the investment at the beginning of the business, the purchases and sales of merchandise, and the payment of operating expenses. All of these transactions may be recorded direct in the ledger as explained in §§ 19 and 29.

The following transactions relative to the complete operations of a business (including investment, operating cost, and purchases and sales of merchandise for

(Concluded on page 35.)

Cash

¹⁹² Oct. 1	1000	¹⁹² Oct. 24	200
10	1075 50	31	50 250
E. B. Moore 305 Elm St., City			
¹⁹² Oct. 18	75		
J. H. Macon 222 Main St., City			
¹⁹² Oct. 28	127 50		
A. R. King Clinton			
¹⁹² Oct. 24	200	¹⁹² Oct. 7	317 65
M. E. Studebaker, Capital			
		¹⁹² Oct. 1	1000
Sales			
		¹⁹² Oct. 10	75 50
		18	75
		28	127 50 278 00
Purchases			
¹⁹² Oct. 7	317 65		
Expense			
¹⁹² Oct. 31	50		

Illustration No. 13, A Ledger with Eight Accounts.

EXPLANATION. This ledger contains a record of the transactions outlined in § 35, recorded direct in the ledger. It is the same as Illustrations No. 3 and No. 9 with the addition of accounts with the owner and Expense. Whether only a part or all of the transactions in connection with the operations of a business are recorded, each transaction affects two accounts, one showing the value received recorded on the debit side and the other the value parted with recorded on the credit side. The same amount in each transaction is recorded on the debit side of one account and on the credit side of another account.

cash and on account), performed by M. E. Studebaker during the month of October, are shown recorded direct in accounts with Cash, customers, creditors, Capital, Sales, Purchases, and Expense in Illustration No. 13. A Trial Balance of balances made from these accounts is shown in Illustration No. 14.

- Oct. 1. M. E. Studebaker invested \$1,000.00 in the office supplies business.
 7. Purchased from A. R. King, Clinton, on account, merchandise, \$317.65.
 10. Received \$75.50 for cash sales of merchandise.
 18. Sold E. B. Moore, 305 Elm St., City, on account, one desk, \$75.00.
 24. Paid A. R. King \$200.00 on account.
 28. Sold J. W. Macon, 222 Main St., City, on account, three files, \$127.50.
 31. Paid rent of store, \$50.00.

M. E. Studebaker
Trial Balance, October 31, 1912

Cash	825.50	
E. B. Moore	75	
J. W. Macon	127.50	
A. R. King		117.65
M. E. Studebaker, Capital		1000
Sales		278
Purchases	317.65	
Expense	50	
	1395.65	1395.65

Illustration No. 14, A Trial Balance of Balances Made from the Ledger Accounts in Illustration No. 13.

Exercise No. 11, Recording Transactions Direct in the Ledger.

Record on ledger paper the following transactions performed during the first half of May by R. H. Gillespie, a retail clothing dealer. Allow space for the accounts as follows: Cash, eight lines; Purchases, nine lines; Sales, eight lines; Expense, six lines; R. H. Gillespie, Capital, five lines; A. C. Dugan, A. R. Isaacs, Charles Heaney, Davis Bros., Globe Clothing Co., and Pope Clothing Co., each four lines. Give each customer and creditor a local address.

- May 1. R. H. Gillespie invested \$2,500.00 in the retail clothing business.
 2. Bought of Davis Bros., on account, merchandise, \$318.67.
 Bought of Brand Bros., for cash, merchandise, \$362.55.
 3. Bought of the Globe Clothing Co., on account, merchandise, \$196.50.
 Sold A. C. Dugan, on account, one suit of clothes, \$65.00.
 4. Bought of Brand Bros., for cash, merchandise, \$318.62.
 5. Sold for cash one suit of clothes, \$65.00; one spring overcoat, \$50.00.
 6. Sold A. R. Isaacs, on account, one suit, \$60.00; five shirts at \$2.50.
 9. Paid the Globe Clothing Co. \$196.50 in full of account.
 Sold Charles Heaney, on account, one suit, \$50.00; one vest, \$10.00.

(Concluded on page 36.)

(Exercise No. 11—Continued from page 35.)

- May 10. Bought of the Pope Clothing Co., on account, merchandise, \$269.96.
Sold A. C. Dugan, on account, one spring overcoat, \$85.00; six ties at \$1.25 each.
11. Received \$60.00 from Charles Heaney in full of account.
 12. Bought of Brand Bros., for cash, merchandise, \$327.16.
 13. Paid \$12.00 for telephone service.
 14. Received \$25.00 from A. R. Isaacs in part payment of the merchandise sold him on the 6th.
 15. Bought of Davis Bros., on account, merchandise, \$105.81.
Paid rent, \$80.00; salaries of clerks, \$75.00.

When these transactions have been recorded in the accounts, prove the equality of the debits and credits by a Trial Balance of balances.

Exercise No. 12, Recording Transactions Direct in the Ledger.

Record on ledger paper the following transactions performed during the month of May by W. L. Kirby, a retail paint merchant. Allow space for the accounts as follows: Cash, eight lines; Purchases, nine lines; Sales, ten lines; Expense, four lines; W. L. Kirby, Capital, Jones Bros., Cowan Bros., W. L. Luttrell, and W. H. Howland, each four lines; C. A. Norman, five lines; National Paint Co., and Marcus Franklin, each four lines.

- May 1. W. L. Kirby invested \$2,500.00 in the retail paint business.
Bought of Jones Bros., Uniontown, on account, merchandise, \$221.35.
Paid one month's rent in advance, \$75.00.
2. Bought of Cowan Bros., City, ten days, merchandise, \$86.49.
Sold W. L. Luttrell, City, on account, merchandise per Sale No. 1, \$42.50. The sale number indicates that a copy of the list of items sold has been retained.
 4. Paid the National Paint Co., New York, cash for merchandise delivered today, \$798.57.
 5. Sold W. H. Howland, Middletown, on account, per Sale No. 2, \$75.80.
Received for cash sales of merchandise, \$110.00.
 7. Paid Cowan Bros. \$86.49 in full of account.
Sold C. A. Norman, City, on account, merchandise per Sale No. 3, \$87.50.
 9. Bought of National Paint Co., New York, twenty days, merchandise, \$171.58.
 10. Sold W. L. Luttrell, City, on account, merchandise per Sale No. 4, \$78.75.
 11. Received \$50.00 from C. A. Norman to apply on account.
 12. Bought of Cowan Bros., City, on account, merchandise, \$93.25.
 14. Received \$75.80 from W. H. Howland in full of account.
 16. Bought of Marcus Franklin, Ardmore, five days, merchandise, \$218.32.
 17. Bought of Jones Bros., Uniontown, on account, merchandise, \$172.50.
 18. Paid Marcus Franklin \$218.32 in full of account.
Sold W. H. Howland, Middletown, on account, merchandise per Sale No. 5, \$88.50.
 19. Sold C. A. Norman, City, on account, merchandise per Sale No. 6, \$32.45.
 21. Received \$30.00 from W. L. Luttrell to apply on account.

(Concluded on page 37.)

(Exercise No. 12—Continued from page 36.)

- May 21. Sold C. O. Baily, for cash, 20 gallons I. X. L. paint at \$4.75, \$95.00.
 24. Paid Jones Bros. \$100.00 to apply on account.
 C. A. Norman returned one gallon paint purchased from us on the 19th and was granted credit for \$3.00. He paid cash, \$29.45, for the balance due on this sale.
 Enter as two separate transactions.
 26. Gave a customer \$2.00 in payment for paint purchased from us for cash and returned per agreement.
 29. Paid the National Paint Co. \$171.58 in full of account.
 C. O. Bailey returned 2 gallons I. X. L. paint purchased on the 21st and accepted in exchange for it 4 gallons varnish.
 No entry is required. Why?
 31. Received credit from Jones Bros. for \$12.00, value of 3 gallons paint purchased on the 17th and returned by us per agreement.

When these transactions have been recorded in the accounts, prove the equality of the debits and credits by a Trial Balance of balances.

RECORDING TRANSACTIONS IN THE JOURNAL

§ 36. **Transactions** with the owner and with operating expenses may be recorded in the journal in the same manner as transactions in which merchandise is purchased or sold for cash or on account. When the owner invests cash or other assets in the business, the transaction is recorded in the journal by writing the date, the name of the account debited and amount, the name of the account credited and amount, and the explanation, in the same form as other transactions; each asset invested is debited to the account which is to show its value, and the owner's Capital account credited. When the owner withdraws a part of his capital, the transaction is recorded in the journal in the same form as the entry for investment; in this case, however, the owner's Capital account is debited with the amount of the withdrawal, and the account which shows the value of the asset withdrawn is credited. When operating costs are paid, the transaction is recorded in the journal by writing the date, the name of the operating account affected (usually Expense) and the amount of the payment, the name and amount of the asset parted with, and the explanation.

Before recording transactions in the journal, the student should journalize each one mentally; that is, he should determine from the nature of the transaction the account to be debited and the account to be credited. Since the information the owner desires is obtained from the accounts, it is essential that the proper accounts be debited and credited in each transaction. Thus if M. E. Studebaker, the proprietor of the business, withdraws from the business \$1,000.00 during the year, as salary, and the bookkeeper debits M. E. Studebaker Capital instead of Expense, the report which Mr. Studebaker receives from his bookkeeper at the end of the year would show \$1,000.00 less expenses than have really been paid.

The following transactions relative to the complete operations of a business (including investment, operating cost, and the purchases and sales of merchandise for cash and on account), performed by M. E. Studebaker during the month of October, are shown recorded in the journal in Illustration No. 15 and posted to the ledger in Illustration No. 16. These transactions are the same as those at the top of page 35.

- Oct. 1. M. E. Studebaker invested \$1,000.00 in the office supplies business.
 7. Purchased from A. R. King, Clinton, on account, merchandise, \$317.65.
 10. Received \$75.50 for cash sales of merchandise.

(Concluded on page 38.)

October 1, 192

/	Cash	1000	
/	M. E. Studebaker Capital		1000
	Invested in the office supplies business		
	7		
/	Purchases	317 65	
/	A. R. King		317 65
	Bought merchandise on account		
	10		
/	Cash	75 50	
/	Sales		75 50
	Sold merchandise for cash		
	18		
/	E. B. Moore	75	
/	Sales		75
	Sold one desk on account		
	24		
/	A. R. King	200	
/	Cash		200
	Paid cash to apply on account		
	28		
/	J. W. Macon	127 50	
/	Sales		127 50
	Sold three filing sections on account		
	31		
/	Expense	50	
/	Cash		50
	Paid rent of store		

Illustration No. 15, A Journal Page with Transactions Recorded on It.

EXPLANATION The transactions recorded in this illustration are given at the bottom of pages 37 and 38. The method of recording is the same as in Illustrations Nos. 7 and 11. The transactions are the same as those recorded direct in the ledger in Illustration No. 13.

(Continued from page 37.)

- Oct. 18. Sold E. B. Moore, 305 Elm St., City, on account, one desk, \$75.00.
 24. Paid A. R. King \$200.00 on account.
 28. Sold J. W. Macon, 222 Main St., City, on account, three files, \$127.50.
 31. Paid rent of store, \$50.00.

Cash

¹⁹² Oct. 1		Dr	1 000	¹⁹² Oct. 24		Dr	2 00
10		Dr	1075 50	31		Dr	2 50
			<i>E. B. Moore</i>				
			305 Elm St., City				
¹⁹² Oct. 18		Dr	75				
			<i>J. W. Macon</i>				
			222 Main St., City				
¹⁹² Oct. 28		Dr	127 50				
			<i>A. R. King</i>				
			Clinton				
¹⁹² Oct. 24		Dr	200	¹⁹² Oct. 7		Dr	317 65
			<i>M. E. Studebaker, Capital</i>				
				¹⁹² Oct. 1		Dr	1 000

Sales

¹⁹² Oct. 10		Dr	75 50
18		Dr	75
28		Dr	127 50
			278 50

Purchases

¹⁹² Oct. 7		Dr	317 65
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Expense

¹⁹² Oct. 31		Dr	50
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Illustration No. 16, A Ledger with Eight Accounts Resulting from Posting.

EXPLANATION. This ledger shows the posting of the transactions recorded in the journal, Illustration No. 15. A comparison of Illustration No. 13 with this illustration will show that the facts are the same, except the folio columns are used in the illustration above.

Exercise No. 13, Recording Transactions in the Journal and Posting.

Record on journal paper the following transactions performed during the month of January by E. B. Taylor, a retail grocer:

- Jan. 1. E. B. Taylor invested \$1,000.00 in the retail grocery business.
 2. Bought of E. C. Cline, Chicago, on account, merchandise, \$77.30.
 3. Bought of Langley Bros., City, thirty days, merchandise, \$134.95.
 4. Paid \$20.00, city and state license for one year.
 6. Sold A. R. Manley, 106 Elm St., City, on account, 40 lbs. Arbuckle coffee at 20c; 1 bbl. White Lily flour, \$6.25.

When the sale includes more than one item, the explanation in the journal should be as follows:

Sold on account:
 40 lbs. Arbuckle Coffee at 20c, \$8.00.
 1 bbl. White Lily Flour 6.25.

10. Paid J. F. Sherwood \$192.00 for merchandise purchased today.
 12. Received \$30.50 for sundry cash sales.
 13. Paid E. C. Cline \$77.30 in full of account.
 16. Sold Gibson Hotel, 12 E. 4th St., City, ten days, 6 bbls. Roller King flour at \$5.10; 3 bbls. White Lily flour at \$6.25; 40 lbs. Arbuckle coffee at 20c.
 17. Sold T. L. Staples, Clinton, sixty days, 4 bbls. Roller King flour at \$5.10; 4 cans, 200 lbs., lard at 15c.
 20. Received \$10.00 from A. R. Manley to apply on account.
 23. Bought of Logan & Moseley, Centerville, twenty days, merchandise, \$228.60.
 26. Sold A. R. Manley, 106 Elm St., City, on account, 5 bbls. White Lily flour at \$6.25; 115 lbs. Arbuckle coffee at 20c.
 27. Received \$30.50 from the Gibson Hotel to apply on account.
 30. Received \$41.85 for sundry cash sales.

When the above transactions have been recorded in the journal as instructed open accounts in the ledger with Cash (9), Purchases (8), Sales (10), Expense (5), E. B. Taylor, Capital (5), E. C. Cline (4), Langley Bros. (4), A. R. Manley (4), Gibson Hotel (4), T. L. Staples (4), Logan & Moseley (4), allowing for each account the number of lines indicated; post the transactions, and prove the posting by a Trial Balance of totals.

Exercise No. 14, Recording Transactions in the Journal and Posting.

Record on journal paper the following transactions performed during the month of July by E. H. Weatherby, a retail grocer:

- July 1. E. H. Weatherby invested \$1,500.00 in the retail grocery business.
 2. Bought from Woodward Bros., Morgantown, on account, merchandise, \$127.60.
 3. Bought from Winters & Gay, Batesville, on thirty days' time, merchandise, \$204.05.
 Paid \$20.00 cash for city and state license.
 5. Sold J. A. Taylor, 22 Poplar St., on account, 25 lbs. roasted coffee at 33c; 50 lbs. granulated sugar at 7c; 60 lbs. bacon at 23c.
 Bought from Chafin & Jones, City, for cash, merchandise, \$242.00.
 6. Received \$22.50 for sundry cash sales to date.
 Paid Woodward Bros. \$127.60 in full of account.

(Concluded on page 41.)

(Exercise No. 14—Continued from page 40.)

- July 8. Sold the Colonial Hotel, Washington Ave., on account, 5 bbls. Blue Ribbon flour at \$9.10; 3 bbls. White Rose flour at \$9.75; 90 lbs. granulated sugar at 7c.
9. Received \$15.00 from J. A. Taylor to apply on account.
10. Bought from Winters & Gay, Batesville, on thirty days' time, merchandise, \$209.58.
12. Received \$40.00 from the Colonial Hotel in part payment for merchandise sold on the 8th.
13. Paid Winters & Gay \$100.00 to apply on purchase of the 3d.
Sold M. J. Sanders, 227 Beech St., on account, 5 bbls. White Rose flour at \$9.75; 10 hams, 191 lbs., at 26c.
15. Bought from Woodward Bros., Morgantown, on account, merchandise, \$216.37.
16. Sold the Colonial Hotel, Washington Ave., on account, 7 doz. cans peaches at \$1.75 per doz.; 2,000 lbs. bran at \$16.25 per 1,000 lbs.
17. Bought from the Perfection Creamery, Rosedale, on twenty days' time, merchandise, \$34.45.
18. Received \$30.00 from M. J. Sanders to apply on account.
Bought from Chafin & Jones, City, for cash, merchandise, \$116.60.
19. Sold W. W. Johnston, 1221 Elm St., on account, 2,000 lbs. bran at \$16.25 per 1,000 lbs.; 200 lbs. lard at 22c; 3 doz. cans peaches at \$1.60 per doz. cans.
20. Paid Winters & Gay \$104.05, balance due on purchase of the 3d.
Received \$52.50 for sundry cash sales to date.
22. Sold W. W. Johnston, 1221 Elm St., on account, 100 lbs. granulated sugar at 7c; 10 bbls. White Rose flour at \$9.75.
23. Bought from the Perfection Creamery, Rosedale, on twenty days' time, merchandise, \$167.55.
24. Received \$50.00 from the Colonial Hotel in full for balance due on sale of the 8th, and on account of sale of the 16th.
Paid Winters & Gay \$200.00 on account of purchase of the 10th.
26. Received \$10.55 from J. A. Taylor in payment for balance due on merchandise sold him on the 5th.
Sold L. S. Lynn, 915 Jefferson Ave., on account, 5 bbls. White Rose flour at \$9.75; 10 lbs. creamery butter at 42c.
29. Received \$40.00 from L. S. Lynn to apply on account.
Paid Woodward Bros. \$200.00 on account of purchase of the 15th.
31. Paid bookkeeper's salary, \$60.00; rent, \$50.00; telephone service, \$10.00.

When the above transactions have been recorded in the journal as instructed, open accounts in the ledger with Cash (13), J. A. Taylor (6), Colonial Hotel (8), M. J. Sanders (5), W. W. Johnston (6), L. S. Lynn (5), Woodward Bros. (6), Winters & Gay (8), Perfection Creamery (6), E. H. Weatherby, Capital (5), Sales (13), Purchases (12), Expense (6), allowing for each account the number of lines indicated; post the transactions, and prove the posting by a Trial Balance of balances.

QUESTIONS

1. Name some of the necessary expenses of a grocery business.
2. Can you suggest a plan which would permit the grocer to know the cost of delivering merchandise?
3. What accounts are affected when cash is paid for telephone service?
4. What effect would it have on the operating cost of the business if the salary paid the owner for his services in connection with the business were debited to his Capital account?
5. Name the account debited and the account credited when merchandise is invested at the beginning of business.
6. What accounts are affected when cash and merchandise are invested at the beginning of business?
7. What must the owner of a business take into consideration when he fixes the selling price of the merchandise which the business offers for sale?
8. Name some of the expenses in connection with the operation of a railroad.
9. If a farmer shows all of his operating cost in one account, name some of the expenses which would be debited to this account.
10. If a merchant pays \$25.00 for drayage on merchandise he has purchased, would this be debited to the Expense or the Purchases account? Give reasons for your answer.
11. What accounts are affected when the owner withdraws a part of his capital?
12. Name the account debited and the account credited when the owner invests cash in the business at a time other than the beginning of the business.
13. If a telephone company pays \$2,000.00 for wire used in connection with the service rendered its customers, will this be debited to the Expense account?
14. If a railroad company pays \$8,000.00 for a new engine, will this be debited to the Expense account?
15. What accounts are affected when stamps, debited to Expense when purchased, are used for parcel post on a package containing merchandise sold a customer on account, with the agreement that he is to pay the postage?
16. Name the account debited and the account credited if the sale mentioned in the preceding question had been made for cash and the customer had given the business cash for the merchandise and stamps.
17. If Robert A. Clark, the owner of a business, is to receive a salary of \$200.00 a month for his services rendered to the business and this is withdrawn at different times, what would be the name of the account kept with the transactions affecting this salary?
18. What accounts would be affected when the entry was made at the end of the month for the \$200.00 salary (§ 33, page 33)?
19. Name the account debited and the account credited if Mr. Clark accepted merchandise from stock at cost price in payment for a part of his salary.
20. What accounts would be affected if Mr. Clark accepted merchandise from stock at the selling price in payment for a part of his salary?
21. What entry would be required if one customer was debited with merchandise purchased by another customer?
22. Name some of the transactions which might occur in connection with the complete operations of a hardware business.
23. Name some of the transactions which might occur in connection with the complete operations of a plumbing business.
24. Under what circumstances would you advise the keeping of more than one account with the expenses of a business?
25. Name some of the transactions which might be performed in connection with the operations of a dairy.

Chapter V

RECORDING TRANSACTIONS—Concluded

§ 37. Special Journals. While all transactions may be recorded in the journal as explained in § 22, yet it is not customary to do this because efficiency in bookkeeping means the greatest amount of work with the best results at the least cost. When a number of transactions affect the same account, much time can be saved by recording them in special journals. Fifty purchases during one month recorded in the journal would require writing "Purchases" fifty times and posting fifty separate amounts to the Purchases account. In addition to the extra time required in recording the transactions and posting, fifty lines would be needed in the ledger for the Purchases account. If these transactions were recorded in a journal and no other transactions were recorded in this journal, it would not be necessary to write "Purchases" in each transaction and the total could be posted to the Purchases account in one amount at the end of the month, thus saving practically half the time in the recording and posting of these transactions. In addition to the time saved in posting, forty-nine lines will be saved in the ledger as a result of posting the total purchases in one amount.

In a mercantile business the transactions which are of the most frequent occurrence are those in connection with the purchase and sale of merchandise and the receipt and payment of cash. If these transactions are recorded in special journals, the work in the accounting department will be much more efficient, and, where the volume of business is large and more than one bookkeeper is needed, the several bookkeepers can use the different journals without interfering with the work of each other.

The title of any special journal is usually the name of the account affected by posting the total at the end of the month. Thus, the journal in which purchases are recorded is usually referred to as the purchases journal because the Purchases account will be debited with the total, and the journal in which sales are recorded is referred to as the sales journal because the Sales account will be credited with the total.

§ 38. The Purchases Journal is a book of original entry in which all purchases of merchandise are recorded and no other transactions are recorded in it. The complete record of a transaction in which merchandise is purchased includes the date of entry, the name and address of the person or firm from whom the merchandise is purchased, the terms, the number of the purchase and the amount of the purchase. The ruling in the purchases journal should be so arranged that all this information can be recorded on one line. When arranged in this manner, each person or firm from whom merchandise is purchased can be credited in his account in the ledger, and the Purchases account debited for the total at the end of the month. Illustration No. 17 shows one form of the purchases journal.

If cash purchases are recorded in the cash book (§ 43), it is not necessary to record them in the purchases journal. This is explained further in connection with the discussion of the cash book.

The following purchases of merchandise made by E. B. Taylor, a retail grocer, during the month of January, are shown recorded in the purchases journal in Illustration No. 17:

- Jan. 2. Bought of E. C. Cline, Chicago, on account, merchandise, \$77.30.
3. Bought of Langley Bros., City, on thirty days' time, merchandise,
\$134.95.
23. Bought of Logan & Moseley, Centerville, on twenty days' time, merchandise, \$228.60.

January, 192

Date	L.F.	Account Credited	Address	Terms	Pur. No.	Amount
2	1	E. C. Cline	Chicago	On acct	1	77.30
3	1	Langley Bros.	City	30 days	2	134.95
23	1	Logan & Moseley	Centerville	20 days	3	228.60
31	1	Purchases Dr. - Total				440.85

Illustration No. 17, Purchases Journal.

EXPLANATION. Each transaction is recorded on one horizontal line. The information in the "Pur. No." column refers to the list of merchandise (invoice) sent by the seller to the purchaser; this list is filed for future reference. The entire record in this illustration is equivalent to one journal entry in which the Purchases account is debited and three personal accounts credited.

§ 39. Posting from the Purchases Journal. The accounts affected by each transaction recorded in the purchases journal are Purchases (debit) and the account of the person or firm (credit); for this reason, each amount entered in the
(Concluded on page 45.)

E. C. Cline
Chicago

192
Jan 2 On acct P. 1 77.30

Langley Bros
City

192
Jan 3 30 days P. 1 134.95

Logan & Moseley
Centerville

192
Jan 23 20 days P. 1 228.60

Purchases

192
Jan 31 P. 1 440.85

Illustration No. 18, Ledger Resulting from Posting Illustration No. 17.

EXPLANATION A Trial Balance from this ledger will show that the debit amount is equal to the credit amounts even though the record in the accounts does not represent all of the transactions that the business would perform. One purpose of this illustration is to show that the ledger is in balance when all the transactions from any one journal have been posted.

money column is posted to the credit of the account written on the same line with it, and the Purchases account is debited at the end of the month with the total. The posting is the same as in the journal, except that the amounts debited to Purchases are grouped and posted at one time; the posting to the accounts with creditors should be daily, and the posting of the total to the Purchases account, monthly. The date, the letter "P" and the page of the purchases journal are entered in the ledger; the letter "P" indicates the title of the book of original entry. If a specific time of payment is stated, this should be written in the explanation column of the ledger as explained in Illustration No. 1. The page of the ledger is written in the folio column of the purchases journal to indicate where the entry has been posted.

The posting of the transactions recorded in the purchases journal, Illustration No. 17, is shown in Illustration No. 18.

Exercise No. 15, Recording Transactions in the Purchases Journal.

Record in the purchases journal (paper ruled similar to Illustration No. 17) the following transactions relative to the purchase of merchandise during the month of February by W. O. Gardner, who is engaged in the hardware business:

- Feb. 1. B. A. Ames, Toledo, 30 days, Purchase No. 1, \$350.00.
 5. H. M. Lowe, Nashville, Feb. 3, 30 days, Purchase No. 2, \$325.00.
 In this purchase the merchandise was shipped Feb. 3 and received Feb. 5; the amount is due 30 days from Feb. 3.
 9. H. T. Harris, Rochester, 20 days, Purchase No. 3, \$486.00.
 12. J. T. Goodrich, City, Feb. 10, 90 days, Purchase No. 4, \$825.00.
 18. J. P. Benson, Cleveland, Feb. 17, 60 days, Purchase No. 5, \$64.00.
 23. C. O. Parsons, City, 30 days, Purchase No. 6, \$128.00.
 28. H. L. Simpson, Dayton, Feb. 26, 30 days, Purchase No. 7, \$242.00.

When the above transactions have been recorded in the purchases journal as instructed, and the purchases journal ruled as in Illustration No. 17, open accounts on a sheet of ledger paper with Purchases and each of the seven creditors, allowing four lines for each account. When the posting has been completed, prove the equality of the debits and credits by a Trial Balance.

Exercise No. 16, Recording Transactions in the Purchases Journal.

Record in the purchases journal the following transactions relative to the purchase of merchandise during the month of January by H. H. Goodman, a retail grocer:

- Jan. 2. Brown & Co., Elmwood, on account, Purchase No. 1, \$77.30.
 3. Knox Bros., City, on account, Purchase No. 2, \$134.95.
 10. Hazen & Lockhart, Danville, on account, Purchase No. 3, \$228.60.
 15. Brown & Co., Elmwood, on account, Purchase No. 4, \$226.00.
 17. Lake View Creamery, Lake View, Jan. 14, 20 days, Purchase No. 5, \$28.00.
 23. J. Allen Smith & Co., Rockford, 10 days, Purchase No. 6, \$197.10.
 27. Donaldson Bros., City, Jan. 24, account, Purchase No. 7, \$172.75.

When the above transactions have been recorded in the purchases journal as instructed, and the purchases journal ruled, open accounts on a sheet of ledger paper with Purchases and each of the six creditors, allowing five lines for Brown & Co. and four lines for each of the other accounts. When the posting has been completed, prove the equality of the debits and credits by a Trial Balance.

After the instructor has approved this exercise, retain the purchases journal only for use in connection with Exercise No. 22.

Exercise No. 17, Recording Transactions in the Purchases Journal.

Record in the purchases journal the following transactions relative to the purchase of merchandise during the month of March by C. U. Steele, a retail shoe dealer:

- March 2. Bay State Shoe Co., Boston, Feb. 28, 10 days, Purchase No. 1, \$496.81.
 3. Haynes, Henson & Co., Newark, N. J., Mar. 2, 10 days, Purchase No. 2, \$387.65.
 4. M. B. Lang, City, Mar. 3, 30 days, Purchase No. 3, \$1,691.42.
 6. Cline Shoe Co., Pittsburgh, Mar. 4, 30 days, Purchase No. 4, \$168.42.
 18. Bay State Shoe Co., Boston, Mar. 15, 30 days, Purchase No. 5, \$987.35.
 25. Haynes, Henson & Co., Newark, N. J., Mar. 20, 30 days, Purchase No. 6, \$462.85.
 26. Cline Shoe Co., Pittsburgh, Mar. 20, 30 days, Purchase No. 7, \$785.00.
 31. A. O. Haines, Albany, Mar. 21, 60 days, Purchase No. 8, \$432.50;
 M. B. Lang, City, Mar. 22, 30 days, Purchase No. 9, \$356.00.

When the above transactions have been recorded in the purchases journal as instructed, and the purchases journal ruled, open an account with Purchases at the top of page 1 of a double sheet of ledger paper, and an account with each of the five creditors on page 2 of the same sheet, allowing equal space for each personal account; prove the equality of the debits and credits by a Trial Balance.

If double ledger paper ruled with from thirty to forty horizontal lines on each page can not be obtained, use any ledger paper available and allow five lines for each account.

After the instructor has approved this exercise, retain the ledger sheet only for use in Exercises Nos. 20 and 23.

§ 40. The Sales Journal is a book of original entry in which all sales of merchandise on account are recorded and no other transactions are recorded in it. The complete record of a transaction in which merchandise is sold on account includes the date of the sale, the name and address of the person or firm to whom the merchandise is sold, the terms, a list of the items sold, and the amount of the sale. It is necessary for the seller to retain a record of the items sold a customer on account because this information will be needed in case adjustments are required. If a customer returns merchandise which he claims was purchased from the seller and the seller has no record of the items sold to this customer, he might be imposed on by allowing credit for merchandise which was not purchased from him.

Illustration No. 19 shows a form of sales journal containing a list of the items sold, and Illustration No. 20 the same sales recorded in a sales journal with the list of items indicated by the sale number. The method shown in Illustration No. 20 is more efficient because it requires less time to record a number than a list of articles sold. The other form is shown because it is used by some business concerns.

If cash sales are recorded in the cash book (§ 43), it is not necessary to record them in the sales journal. This is explained further in connection with the discussion of the cash book.

The following sales made by E. B. Taylor, a retail grocer, during the month of January, are shown recorded in the sales journals in Illustrations Nos. 19 and 20.

- Jan. 6. Sold A. R. Manley, 106 Elm St., City, on account, 40 lbs. Arbuckle coffee at 20c; 1 bbl. White Lily flour, \$6.25.
 16. Sold Gibson Hotel, 12 E. 4th St., City, on ten days' time, 6 bbls. Roller King flour at \$5.10; 3 bbls. White Lily flour at \$6.25; 40 lbs. Arbuckle coffee at 20c.
 17. Sold T. L. Staples, Clinton, on sixty days' time, 4 bbls. Roller King flour at \$5.10; 4 cans, 200 lbs., lard at 15c.
 26. Sold A. R. Manley, 106 Elm St., City, on account, 5 bbls. White Lily flour at \$6.25; 115 lbs. Arbuckle coffee at 20c.

January 6, 192

1	A. R. Manley	106 Elm St., City			1425
	40 lbs. Arbuckle Coffee	.20	8		
	1 bbl. White Lily Flour		625		
		16			
1	Gibson Hotel	12 E. 4 th St., City			5735
	6 bbls. Roller King Flour	5.10	3060		
	3 " White Lily Flour	6.25	1875		
	40 lbs. Arbuckle Coffee	.20	8		
		17			
1	T. L. Staples	Clinton			5040
	4 bbls. Roller King Flour	5.10	2040		
	4 cans, 200 lbs. Lard	.15	30		
		26			
1	A. R. Manley	106 Elm St., City			5425
	5 bbls. White Lily Flour	6.25	3125		
	115 lbs. Arbuckle Coffee	.20	23		
				17625	
1	Sales Cr. - Total				17625

Illustration No. 19, Sales Journal Containing a List of Items Sold.

EXPLANATION. The transactions recorded in this sales journal are equivalent to a journal entry in which four accounts are debited, each for the amount written on the same line with it, and the Sales account credited for the total. Each entry shows the date, the name and address of the customer, the total amount of the sale, and a list of the items sold.

January, 192

Date	L. F.	Account Debited	Address	Terms	Sale No.	Amount
6	1	A. R. Manley	106 Elm St., City	On acct.	1	1425
16	1	Gibson Hotel	12 E. 4 th St., City	30 days	2	5735
17	1	T. L. Staples	Clinton	60 days	3	5040
26	1	A. R. Manley	106 Elm St., City	On acct.	4	5425
31	1	Sales Cr. - Total				17625

Illustration No. 20, Sales Journal Without a List of Items Sold.

EXPLANATION. The above facts are the same as those in Illustration No. 19, except the articles are not itemized. Information concerning these is obtained from a copy of the sale (sales ticket).

§ 41. **Posting from the Sales Journal.** The accounts affected by each transaction recorded in the sales journal are the customer (debit) and Sales (credit); for this reason each amount written on the line with the name of the customer is posted to the debit of his account, and the Sales account is credited with the total at the end of the month. The posting of the amounts to accounts with customers is daily, and the total to the Sales account, monthly. The date, the letter "S" and the page of the sales journal are entered in the ledger; the letter "S" indicates the title of the book of original entry. If a specific time of payment is stated, this should be written in the explanation column of the ledger as explained in Illustration No. 1. The page of the ledger is written in the folio column of the sales journal to indicate where the entry has been posted.

The posting of the transactions recorded in the sales journal, Illustration No. 19 or No. 20, is shown in Illustration No. 21.

					<i>A. R. Manley</i>		<i>106 Elm. St. City.</i>	
¹⁹²	<i>Jan. 6</i>	<i>On acct.</i>	<i>S.</i>	<i>1425</i>				
	<i>26</i>	<i>"</i>	<i>S.</i>	<i>5425</i>				
					<i>Gibson Hotel</i>		<i>12 E. 4th St. City.</i>	
¹⁹²	<i>Jan. 16</i>	<i>30 days</i>	<i>S.</i>	<i>5735</i>				
					<i>T. L. Staples</i>		<i>Clinton</i>	
¹⁹²	<i>Jan. 17</i>	<i>60 days</i>	<i>S.</i>	<i>5040</i>				
					<i>Sales</i>			
					¹⁹² <i>Jan. 31</i>	<i>S.</i>	<i>17625</i>	

Illustration No. 21, Ledger Resulting from Posting Illustration No. 19 or No. 20.

EXPLANATION. The same explanation applies here as that given in connection with the ledger resulting from posting the transactions from the purchases journal, Illustration No. 18.

Exercise No. 18, Recording Transactions in the Sales Journal.

Record in the sales journal (paper ruled similar to Illustration No. 20) the following transactions relative to the sale of merchandise on account during the month of February by W. J. Wheeler, a retail merchant:

- Feb. 3. E. M. Miller, 507 Gay St., Sale No. 1, \$25.50.
8. William A. Wallace, Evanston, Sale No. 2, \$14.50.

(Concluded on page 49.)

(Exercise No. 18—Continued from page 48.)

- Feb. 12. B. T. Hart & Co., Maryville, Sale No. 3, \$32.50.
 14. D. T. Sinton, Uniontown, Sale No. 4, \$41.65.
 18. G. L. Frye, 29 Main St., Sale No. 5, \$12.75.
 20. The Long Construction Co., Uniontown, 30 days, Sale No. 6, \$142.50.
 23. Henry Mason, 64 Union St., Sale No. 7, \$21.55.
 27. D. P. Lewis, 310 Chestnut St., Sale No. 8, \$9.75.
 28. Maynard Pritchett, Brookville, 30 days, Sale No. 9, \$65.25.

When the above transactions have been recorded in the sales journal as instructed, and the sales journal ruled as in Illustration No. 20, open accounts on a sheet of ledger paper with Sales and each of the nine customers, allowing four lines for each. When the posting has been completed, take a Trial Balance.

Exercise No. 19, Recording Transactions in the Sales Journal.

Record in the sales journal (journal paper ruled similar to Illustration No. 19) the following transactions relative to the sale of merchandise during the month of January by H. H. Goodman, a retail grocer:

- Jan. 4. A. R. Jennings, 105 Main St., 20 lbs. roasted coffee at 33c; 100 lbs. granulated sugar at 7c; 50 lbs. bacon at 23c.
 8. Central Hotel, 22 Walnut St., 5 bbls. Blue Ribbon flour at \$9.25; 4 hams, 100 lbs., at 26c; 100 lbs. granulated sugar at 7c.
 11. A. R. Jennings, 105 Main St., 1 doz. cans tomatoes, \$2.00; 4 cans, 216 lbs., lard at 26c.
 13. M. A. Johnson, Kingston, 5 bbls. White Rose flour at \$9.75; 6 hams, 141 lbs., at 26c.
 16. Imperial Hotel, 200 Locust St., 5 bbls. Blue Ribbon flour at \$9.25; 100 lbs. granulated sugar at 7c.
 19. A. C. Williams, 1221 Elm St., 12 doz. cans peaches at \$1.80 per doz.; 2,000 lbs. bran at \$16.25 per 1,000 lbs.
 22. R. G. Mathews, 25 E. Fourth St., 10 bu. meal at \$1.10; 5 bu. beans at \$3.20; 3 doz. cans peaches at \$1.80 per doz.
 25. Imperial Hotel, 200 Locust St., 5 bbls. White Rose flour at \$9.75; 25 lbs. creamery butter at 41c.
 26. J. C. Wilson, 270 Central Ave., 2,000 lbs. bran at \$16.25 per 1,000 lbs.; 5 cans, 248 lbs., lard at 26c.
 27. C. L. Loyd, 1604 Vine St., 100 lbs. brown sugar at 6½c; 100 lbs. granulated sugar at 7c; 5 bbls. White Rose flour at \$9.75.

When the above transactions have been recorded in the sales journal as instructed, and the sales journal ruled as in Illustration No. 19, open accounts on a sheet of ledger paper with Sales and each of the eight customers, allowing five lines each for A. R. Jennings and Imperial Hotel and four lines for each of the other accounts. When the posting has been completed, take a Trial Balance.

After the instructor has approved this exercise, retain the sales journal only for use in connection with Exercise No. 22.

Exercise No. 20, Recording Transactions in the Sales Journal.

Record in the sales journal (journal paper ruled similar to Illustration No. 19) the following transactions relative to the sale of merchandise during the month of March by C. U. Steele, a retail shoe dealer:

- March 1. R. L. Watson, 207 Mason St., 1 pr. Queen City shoes, \$10.50.
 4. C. A. Sheppard, Canton, 3 prs. Ladies' shoes at \$4.00.
 9. J. C. Wilson & Co., Hamilton, 8 prs. Men's Calf shoes at \$2.50; 14 prs. Men's Jefferson shoes at \$3.75.

(Concluded on page 50.)

(Exercise No. 20—Continued from page 49.)

- March 12. A. R. King, Boston, 1 pr. Ladies' Bal. at \$4.50.
 15. W. E. Peters, Clinton, 1 pr. Men's Vici Autocrat shoes, \$14.00.
 18. W. K. Love, 207 Main St., 1 pr. Men's Vici Kid shoes, \$11.50.
 21. A. R. King, Boston, 2 prs. Women's Box Calf at \$4.00.
 26. C. A. Sheppard, Canton, 1 pr. Men's Cong. Calf, \$9.00.
 30. R. L. Watson, 207 Mason St., 6 prs. Children's Satin Calf at \$2.75.

When the above transactions have been recorded in the sales journal as instructed, and the sales journal ruled as in Illustration No. 19, open an account with Sales eight lines from the top of page 1 of the double sheet of ledger paper used in Exercise No. 17; open an account with each of the six customers on page 3 of this same ledger sheet, allowing equal space for each personal account; take a Trial Balance. When approved, retain the ledger sheet for use in Exercise No. 23.

§ 42. **The Cash Record.** There are two classes of cash transactions: those in which cash is received, and those in which cash is paid. These transactions may be recorded in two separate journals, the receipts in a cash receipts journal and the payments in a cash payments journal, or they may be recorded in a cash book which is a combination of the two journals. When one bookkeeper records all the transactions with cash received and paid, it is better to use the cash book; when the recording of cash transactions requires more than one bookkeeper, it is better to use separate cash receipts and cash payments journals.

Cash				Receipts	
Jan.	1	E. B. Taylor Capital Investment	1000		
	12	Sales Cash sales	3050		
	20	A. R. Manley On account	10		
	27	Gibson Hotel " "	3050		
	30	Sales Cash sales	4185		
	31	Cash Dr. Total receipts	111285		111285
Feb.	1	Balance On hand			82355

Illustration No. 22, Receipts Side of Cash Book.

EXPLANATION. The transactions recorded on the receipts side of the cash book in the illustration are equivalent to a journal entry in which the Cash account is debited for the total, and each of the four accounts credited for the amount written on the same line with it. The ruling separates the cash receipts for two different months; the balance at the beginning of the month is carried down below the ruling because it will be needed in subsequent proving of cash.

§ 43. **The Cash Book** is a book of original entry in which all receipts and payments of cash are recorded and no other transactions are recorded in it. Receipts and payments are usually recorded on separate pages opposite each other, receipts on the left and payments on the right. The complete record of a transaction in which cash is received or paid consists of the date, the name of the account affected, explanation, and the amount received or paid. The ruling in the cash book should be so arranged that all this information can be recorded on one line. When ar-

ranged in this manner, each account affected by a cash receipt can be credited for the amount and the Cash account debited for the total at the end of the month; each account affected by a cash payment can be debited for the amount and the Cash account credited for the total at the end of the month. One form of the cash book is shown in Illustrations Nos. 22 and 23; other forms will be illustrated and explained later.

When a cash sale is recorded in the cash book only, the Sales account is credited; if recorded in the sales journal and cash book, the customer whose account is debited by the sales journal entry is credited in the cash book entry. When a cash purchase is recorded in the cash book only, the Purchases account is debited; if recorded in the purchases journal and cash book, the creditor whose account is credited by the purchases journal entry is debited in the cash book entry.

The following receipts and payments of cash made during the month of January by E. B. Taylor, a retail grocer, are shown recorded in the cash book in Illustrations Nos. 22 and 23:

- Jan. 1. E. B. Taylor invested \$1,000.00 in the retail grocery business.
 4. Paid \$20.00, city and state license for one year.
 10. Paid J. F. Sherwood \$192.00 for a cash purchase of merchandise.
 12. Received \$30.50 for sundry cash sales.
 13. Paid E. C. Cline \$77.30 in full of account.
 20. Received \$10.00 from A. R. Manley to apply on account.
 27. Received \$30.50 from the Gibson Hotel to apply on account.
 30. Received \$41.85 for sundry cash sales.

<i>Cash</i>				<i>Payments</i>			
<i>19</i>							
<i>Jan.</i>	<i>4</i>	<i>1</i>	<i>Expense</i>	<i>City and state license</i>	<i>20</i>		
	<i>10</i>	<i>1</i>	<i>Purchases</i>	<i>Cash purchase</i>	<i>192</i>		
	<i>13</i>	<i>1</i>	<i>E. C. Cline</i>	<i>In full of account</i>	<i>77.30</i>		
					<i>289.30</i>		
	<i>31</i>	<i>1</i>	<i>Cash Cr.</i>	<i>Total payments.</i>		<i>289.30</i>	
			<i>Balance</i>			<i>823</i>	
							<i>111285</i>

Illustration No. 23, Payments Side of Cash Book.

EXPLANATION. The transactions recorded on this side of the cash book are equivalent to a journal entry in which three accounts are debited, each for the amount written on the same line with it, and the Cash account credited for the total. The balance is entered in red ink because it is customary to use red ink when an amount is entered in a book of account or a ledger account in order to make the two sides equal. The ruling separates the cash payments for two different months.

§ 44. **Proving Cash.** The difference between the two sides of the cash book should at all times equal the amount of cash belonging to the business; the proof is effected by counting the cash and comparing it with the balance shown by the cash book. Cash should be proved before posting. After the cash is proved at the end of the month, the cash book is ruled; Illustrations Nos. 22 and 23 show the method of footing and ruling the cash book at the end of the month.

E. B. Taylor, Capital

		¹⁹² Jan. 1				Cr	1000	
			Sales					
		¹⁹² Jan. 12				Cr	3050	
		30				Cr	4185	
			A. R. Manley					
		¹⁹² Jan. 20				Cr	10	
			Gibson Hotel					
		¹⁹² Jan. 27				Cr	3050	
			Cash					
¹⁹² Jan. 31			Cr	111285	¹⁹² Jan. 31		Cs	28930
			Expense					
¹⁹² Jan. 4			Cs	20				
			Purchases					
¹⁹² Jan. 10			Cs	192				
			E. C. Cline					
¹⁹² Jan. 13			Cs	7730				

Illustration No. 24, Ledger Resulting from Posting Illustrations Nos. 22 and 23.

EXPLANATION. This illustration is given to show that the ledger is in balance when all the transactions recorded in the cash book have been posted, and not to show the true meaning of the accounts. Accounts resulting from the posting of transactions recorded in the cash book only will not show their true meaning because of the connection between the record in the cash book and that in the purchases and sales journals. If desired, the posting from the receipts side, the payments side, and both sides of the cash book may each be proved by a separate Trial Balance.

§ 45. Posting from the Cash Book. The accounts affected by each transaction recorded on the receipts side of the cash book are Cash debited and some account credited; for this reason each amount written on the line with the name of the account is posted to the credit of the account, and Cash is debited with the total at the end of the month. The accounts affected by each transaction recorded on the payments side of the cash book are some account debited and Cash credited; for this reason each amount written on the line with the name of the account is posted to the debit of the account, and Cash is credited with the total at the end of the month. The posting to the accounts debited and credited is daily, and to the Cash account monthly. The date, the letter "C" and the page of the cash book are entered in the ledger; the letter "C" indicates the title of the book of original entry. The page of the ledger is written in the folio column of the cash book to indicate where the entry has been posted.

The posting of the transactions recorded in the cash book, Illustrations Nos. 22 and 23, is shown in Illustration No. 24.

Some bookkeepers advise a Cash account in the ledger, while others accept the record in the cash book as the Cash account. The Cash account in the ledger will show the total receipts and total payments of cash for a period longer than a month, while the record in the cash book shows the total receipts and total payments for each month only. If it is desired to know the cash receipts and cash payments for the first six months of a given year, this information can be obtained from the total debits and total credits to the Cash account in the ledger; if the cash book is the only record of cash, it will be necessary to add the totals for each of the six months in order to ascertain the desired information.

Exercise No. 21, Recording Transactions in the Cash Book.

Record in the cash book (the two inside pages of a double sheet of journal paper* ruled similar to Illustrations Nos. 22 and 23), receipts on the left and payments on the right, the following cash transactions performed during the month of February:

- Feb.
1. Student invested \$1,276.80 in the retail grocery business.
 2. Received \$150.00 from E. H. White to apply on account.
 3. Paid office rent for the month of February, \$40.00.
 4. Received \$80.00 for cash sales.
Paid H. R. Swanson \$60.00 to apply on account.
 6. Received \$120.00 for cash sales.
 8. Paid A. B. Hill \$90.50 to apply on account.
 9. Received \$90.00 from J. K. Lachman in payment for merchandise sold him on the 4th.
 10. Paid drayage on merchandise purchased, \$22.50.
 11. Paid J. G. Pipkin \$124.00 to apply on account.
 14. Received \$69.75 for cash sales.
 16. Received \$170.00 from P. B. S. Peters in payment for merchandise sold him on the 10th.
 18. Paid \$45.00 for office supplies.
 20. Paid J. T. Ludlow \$146.00 to apply on account.
 22. Purchased merchandise for cash from H. P. King, \$128.00.
 23. Received \$47.85 for cash sales.
 24. Received \$210.00 from H. M. Lovert to apply on account.
 25. Paid salesman's expenses, \$76.00.
Received \$52.50 for cash sales.

(Concluded on page 54.)

*If double journal paper with from thirty to forty lines on each page is not available, cash receipts should be recorded on one sheet of paper and payments on another, as the proper ruling of the cash book cannot be shown when receipts are entered on one side and payments on the other side of the same sheet.

(Exercise No. 21—Continued from page 53.)

- Feb. 27. Paid \$32.80 for freight on merchandise purchased.
 Paid clerk hire, \$40.00.
 28. Paid for advertising, \$22.50.
 Cash balance, \$1,439.60.

When the above transactions have been recorded in the cash book as instructed, prove cash and rule the cash book as in Illustrations Nos. 22 and 23. Open accounts on a sheet of ledger paper with Student, Capital (5), Cash (5), Purchases (6), Sales (8), Expense (8), E. H. White (4), J. K. Lachman (4), P. B. S. Peters (4), H. M. Lvert (4), H. R. Swanson (4), A. B. Hill (4), J. G. Pipkin (4), J. T. Ludlow (4), allowing for each account the number of lines indicated. Post the transactions, and prove the equality of the debits and credits by a Trial Balance of balances.

Exercise No. 22, Recording Transactions in the Cash Book.

Record in the cash book, receipts on the left and payments on the right, the following cash transactions performed during the month of January by H. H. Goodman, a retail grocer:

- Jan. 1. H. H. Goodman invested \$2,000.00 in the retail grocery business.
 4. Paid \$20.00 for city license.
 5. Paid City Milling Co. \$192.00 for a cash purchase.
 6. Received \$30.00 for sundry cash sales.
 Paid Brown & Co. \$77.30 in full of account.
 9. Received \$10.00 from A. R. Jennings to apply on account.
 12. Received \$30.00 from Central Hotel to apply on account.
 13. Received \$40.00 for sundry cash sales.
 Paid Knox Bros. \$100.00 to apply on account.
 18. Received \$35.00 from M. A. Johnson to apply on account.
 20. Paid Knox Bros. \$34.95 in full of account.
 Received \$50.00 for sundry cash sales.
 24. Received \$15.00 from Central Hotel to apply on account.
 Paid Hazen & Lockhart \$125.00 to apply on account.
 26. Received \$15.10 from A. R. Jennings to apply on account.
 27. Received \$42.50 for sundry cash sales.
 29. Received \$50.00 from C. L. Loyd to apply on account.
 30. Paid Brown & Co. \$150.00 to apply on account.
 31. Paid bookkeeper's salary, \$35.00; rent, \$25.00.
 Cash balance, \$1,558.35.

When the above transactions have been recorded in the cash book as instructed, prove cash and rule the cash book; then proceed as follows:

1. Open accounts on ledger paper with H. H. Goodman, Capital (4), Cash (4), Purchases (4), Sales (6), Expense (4), A. R. Jennings (4), Central Hotel (4), M. A. Johnson (4), C. L. Loyd (4), Brown & Co. (4), Knox Bros. (4), Hazen & Lockhart (4), allowing for each account the space indicated; post the transactions, and prove the equality of the debits and credits by a Trial Balance of balances.

2. After the instructor has approved the work required in the first paragraph, post to a sheet of ledger paper the transactions in the purchases journal for Exercise No. 16 and the sales journal for Exercise No. 19, which you were instructed to retain, and the cash book in this exercise. Arrange the accounts as follows: Cash (6), customers (each 4 lines), creditors (each 4 lines), H. H. Goodman, Capital (5), Sales (7), Purchases (4), Expense (4), allowing for each the number of lines indicated; take a Trial Balance of balances from this ledger.

(Concluded on page 55.)

(Exercise No. 22—Continued from page 54.)

The purpose of the second division of this exercise is to show that the ledger is in balance when all the transactions from all the special journals have been posted, the same as it is when all the transactions from each special journal have been posted.

Present the purchases journal, sales journal, cash book, ledger resulting from posting the transactions from the three books, and Trial Balances to the instructor for approval.

Exercise No. 23, Recording Transactions in the Cash Book.

Record in the cash book the following cash transactions performed during the month of March by C. U. Steele, a retail shoe dealer:

- March
1. C. U. Steele invested \$2,500.00 in the retail shoe business.
 2. Bought from M. B. Arnstine, for cash, stock of shoes, \$1,691.42.
 3. Paid telephone service in advance for three months, \$20.00.
Received \$69.85 for cash sales.
 5. Paid clerk's salary, \$25.00.
 6. Received \$10.50 from R. L. Watson in full of account.
 8. Paid Bay State Shoe Co. \$496.81 in full of account.
 9. Received \$275.40 for cash sales.
 12. Paid clerk's salary, \$25.00.
 13. Paid \$75.00, premium on insurance policy.
 15. Paid Haynes, Henson & Co. \$387.65 in full of account.
 16. Received \$12.00 from C. A. Sheppard in full of account.
 18. Paid \$8.25 for stamps and stationery.
 19. Paid clerk's salary, \$25.00.
 22. Received \$72.50 from J. C. Wilson & Co. in full of account.
 24. Received \$11.50 from W. K. Love in full of account.
 26. Received \$581.92 for cash sales.
Paid clerk's salary, \$25.00.
 29. Received \$4.50 from A. R. King for merchandise sold him on the 12th.
 31. Paid rent, \$50.00.
Paid Cline Shoe Co. \$168.42 for merchandise purchased on the 6th.
Received \$361.92 for cash sales.
Cash balance, \$902.54.

When the above transactions have been recorded in the cash book as instructed, prove cash and rule the cash book. Open an account on page 1 of the double sheet of ledger paper used in Exercises Nos. 17 and 20 with C. U. Steele, Capital, eleven lines below the heading of the Sales account, an account with Expense seven lines below the heading of the account with C. U. Steele, Capital, and an account with Cash fourteen lines below the heading of the Expense account. Post the entries in the cash book to the accounts on pages 1, 2 and 3 of the ledger sheet, and take a Trial Balance of balances.

Retain the ledger and Trial Balance for use in Exercise No. 37.

§ 46. **The General Journal** is a book of original entry in which all transactions are recorded except those recorded in special journals. The general journal is the same as the journal explained in § 22, and the ruling is the same as the various illustrations of the journal given in preceding chapters. When purchases are recorded in the purchases journal, sales in the sales journal, and cash receipts and payments in the cash book, all other transactions are recorded in the general journal. These transactions may be classified into four groups: (1) opening entries; (2) current entries; (3) correcting entries; (4) adjusting and closing entries.

¶ 1. *Opening Entries* are those necessary to record assets other than cash invested by the owner at the beginning of the business. If the business is owned

by one person and his investment is cash, the opening entry will be made in the cash book. If assets other than cash are invested, the accounts which are to show the value of the assets will be debited, and the owner's Capital account credited for the total of the assets in the opening entry in the journal. If the owner wishes to have the business assume liabilities, two entries are necessary to open the books, one to record the assets, and the other to record the liabilities; the owner's Capital account is debited for the total liabilities, and the accounts which are to show the liabilities, credited.

ILLUSTRATION. January 1, S. J. Shook began the retail shoe business. He invested cash \$500.00, merchandise \$425.65, and an account due him from W. H. Barton for \$221.75. He owes the Ritter Shoe Co. \$150.00 and the Haynes Shoe Co. \$75.85. The cash invested will be recorded in the cash book as in the first entry in Illustration No. 22; the other assets and the liabilities will be recorded in the general journal as in the illustration at the right.

January 1, 192

<i>Purchases</i>	<i>425 65</i>	
<i>W. H. Barton</i>	<i>221 75</i>	
<i>S. J. Shook, Capital</i>		<i>647 40</i>
<i>S. J. Shook, Capital</i>	<i>225 85</i>	
<i>Ritter Shoe Co.</i>		<i>150</i>
<i>Haynes Shoe Co.</i>		<i>75 85</i>

If desired, the entry for the cash invested may be made in connection with the entry in the general journal for the other assets. When this plan is followed, cash and each asset is debited and the proprietor credited in the same form as in the illustration. The proprietor is also credited for the cash in the cash book in the same manner as though the entry for the cash had not been made in the general journal. A check mark is placed in the L. F. column at the left of Cash in the general journal and at the left of the proprietor's name in the cash book to avoid double posting.

¶ 2. *Current Entries* are those necessary to record transactions in the regular operations of the business. When the nature of these transactions is such that they cannot be recorded in one of the special journals, it is necessary to record them in the general journal. Current entries include those for transactions in which merchandise is returned to a creditor, a customer returns merchandise, assets other than cash are accepted from customers in payment of their obligations, and assets other than cash are given to a creditor in payment of an obligation owed him.

ILLUSTRATION. May 12, George A. Douglas purchased from the Potter Shoe Co. two pairs shoes at \$8.50, with the privilege of returning one pair within five days. This transaction was recorded in the sales journal, his account being debited with \$17.00. May 15 he returned one pair and received credit for \$8.50 as per agreement. The entry required in the general journal is shown in the illustration at the right.

May 15, 192

<i>Sales</i>	<i>8 50</i>	
<i>George A. Douglas</i>		<i>8 50</i>

¶ 3. *Correcting Entries* are those made necessary because of errors in recording transactions. These errors may occur in the calculations necessary to ascertain the amount of a sale, a purchase, merchandise returned by a customer, merchandise returned to a creditor, or they may be the result of incorrect posting.

ILLUSTRATION. April 16, C. A. Moore purchased from Dawes Bros., retail tire dealers two 32 x 3½ Fisk cord tires at \$37.75 each. The transaction was recorded in the sales journal by the bookkeeper for Dawes Bros., but through an error, the amount was entered as \$85.50 instead of \$75.50. May 1, Dawes Bros. received \$75.50 from Mr. Moore in full payment for the two tires. When the bookkeeper for Dawes Bros. posted the amount to Mr. Moore's account, there was a balance of \$10.00, due to the error which Mr. Moore had reported. The only means of correcting this error was through an entry in the general journal similar to that in the Illustration at the right.

May 1

<i>Sales</i>	<i>10</i>	
<i>C. A. Moore</i>		<i>10</i>

¶ 4. *Adjusting and Closing Entries* are those required at the end of a business year. These are explained and illustrated in Chapter VIII.

¶ 5. *Posting from the General Journal.* Each amount entered in the debit column is posted to the debit side of the account written on the same line with it. Each amount entered in the credit column is posted to the credit side of the account written on the same line with it. The process is the same as that given in § 23.

Exercise No. 24, Purchases Journal, Sales Journal, General Journal, and Cash Book.

Record in the purchases, sales (Illustration No. 19), and general journals and the cash book, the following transactions performed during the month of February by Donald D. Sells, a retail hardware merchant:

- Feb.
1. Donald D. Sells invested \$3,000.00 in the hardware business.
 2. Bought from Moore & Moore, City, on account, merchandise, \$187.65.
Enter in the purchases journal as Purchase No. 1 and number succeeding entries in this journal in regular order.
 3. Sold J. C. Mason, City, on account, four kegs nails at \$4.50 each.
 4. Paid Davis Bros., City, \$281.36 for a cash purchase of merchandise.
Enter on the payments side of the cash book as a debit to the Purchases account.
 5. Paid \$25.00 telephone rent for three months in advance.
 6. Bought from the Pickering Hardware Co., Danville, on fifteen days' time, merchandise, \$321.97.
Paid Moore & Moore \$100.00 on account.
 8. Received \$116.50 for cash sales.
 9. Sold Walter Love, Riverside, on account, one saw, \$5.00; one corn sheller, \$37.25.
 10. Bought from Johnson Bros., Dayton, on fifteen days' time, merchandise \$261.85.
Received \$18.00 from J. C. Mason in full of account.
 11. Paid Moore & Moore \$87.65 in full of account.
 12. Sold J. C. Miller, City, on account, 100 lbs. lead at 8c; 4 doz. picks at \$14.50 per doz.
 13. Received \$106.95 for cash sales.
Gave Walter Love credit for \$5.00, value of the saw sold him on the 9th and returned by him per agreement.
 15. Received \$20.00 from Walter Love to apply on account.
 16. Paid clerk's salary, \$30.00.
 17. Bought from Donaldson Bros., Mooresville, on account, merchandise, \$321.85.
 18. Sold Central Construction Co., Arlington, on account, 3 doz. shovels at \$9.00 per doz.; 5 doz. picks at \$14.00 per doz.; 6 scrapers at \$38.50 each.
 19. Paid Pickering Hardware Co. \$321.97 in full of account.
 20. Received \$15.60 cash from Davis Bros. for three kegs of nails purchased from them on the 4th and returned by us per agreement.
Paid Johnson Bros. \$150.00 on account.
 22. Received \$125.25 for cash sales.
 24. Donaldson Bros. have allowed us credit for \$32.60, cutlery purchased from them on the 17th and returned by us per agreement.
Sold Walter Love, Riverside, on account, 1 Studebaker wagon, \$125.00.
Paid Johnson Bros. \$100.00 to apply on account.
 25. Purchased from the Pickering Hardware Co., Danville, on fifteen days' time, merchandise, \$127.50.
 26. Received \$17.25 from Walter Love in full for the corn sheller sold him on the 9th.
 27. Received \$121.85 for cash sales.
 28. Paid rent, \$50.00; clerk's salary, \$30.00.

When the above transactions have been recorded in the four books of original entry, prove cash (balance, \$2,365.42) and rule the cash book as in Illustrations Nos. 22 and 23. Open accounts on a sheet of ledger paper with Cash (8), J. C. Mason (5), Walter Love (7), J. C. Miller (5), Central Construction Co. (5), Moore &

Moore (6), Pickering Hardware Co. (6), Johnson Bros. (6), Donaldson Bros. (5), Donald D. Sells, Capital (8), Sales (10), Purchases (10), Expense (8), allowing for each account the number of lines indicated; post from the books of original entry, and take a Trial Balance of totals.

Retain the ledger and Trial Balance for use in Exercise No. 38.

Exercise No. 25, Purchases Journal, Sales Journal, General Journal and Cash Book.

Record in the purchases, sales (Illustration No. 20), and general journals and the cash book, the following transactions performed during the month of October by H. A. Popp, a retail coal dealer:

- Oct. 1. H. A. Popp invested \$1,000.00 in the retail coal business.
3. Bought from the Central Coal Co., Jerseyville, on ten days' time, \$250.00. Enter in the purchases journal as Purchase No. 1 and number succeeding entries in this journal in regular order.
- Sold J. C. Miller, City, on account, coal per Sale No. 1, \$52.50.
4. Bought from Davis Coal Co., Covington, on account, \$175.50.
5. Paid \$10.00 for one month's telephone service.
6. Bought from Jellico Coal Co., Jellico, on fifteen days' time, \$362.75.
8. Paid the Central Coal Co. \$100.00 on account.
- Received \$62.80 for cash sales of coal.
9. Sold M. B. Wallace, City, on account, coal per Sale No. 2, \$30.50.
10. Paid the Murray Drayage Co. \$104.90, freight and drayage bills on coal purchased and delivered.
- Received \$151.05 for cash sales of coal.
11. Sold the Central Hotel, City, on account, coal per Sale No. 3, \$242.50.
12. Paid the Central Coal Co. \$150.00 in full of account.
13. Sold J. C. Miller, City, on account, coal per Sale No. 4, \$16.50.
15. Paid clerk's salary for the first half of the month, \$40.00.
- Received \$122.00 for cash sales of coal.
16. Received \$20.00 from M. B. Wallace on account.
18. Paid the Donaldson Coal Co. \$400.00 for coal delivered today.
20. Paid the Jellico Coal Co. \$150.00 on account.
- (The Jellico Coal Co. has allowed us credit for \$10.00 overcharge on coal purchased on the 6th.
22. Received \$10.50 from M. B. Wallace in full of account.
23. Sold the Central Hotel, City, on account, coal per Sale No. 5, \$27.50.
24. Bought from the Davis Coal Co., Covington, on account, \$209.38.
25. Received \$135.65 for cash sales of coal.
26. Allowed the Central Hotel credit for \$2.50, error in weight of coal sold them on the 23d.
- Sold M. B. Wallace, City, on account, coal per Sale No. 6, \$10.00.
27. Received \$200.00 from the Central Hotel to apply on account.
29. Sold J. C. Miller, City, on account, coal per Sale No. 7, \$40.00.
30. Received \$192.80 for cash sales of coal.
31. Paid rent, \$65.00; clerk's salary for the latter half of the month, \$40.00.

When the above transactions have been recorded in the four books of original entry, prove cash (balance, \$834.90) and rule the cash book. Open accounts on a sheet of ledger paper with Cash (8), J. C. Miller (7), M. B. Wallace (7), Central Hotel (6), Central Coal Co. (6), Davis Coal Co. (6), Jellico Coal Co. (6), H. A. Popp, Capital (8), Sales (12), Purchases (10), Expense (8), allowing for each account the number of lines indicated; post from the books of original entry, and take a Trial Balance of balances.

Retain the ledger and Trial Balance for use in Exercise No. 39.

Summary of Chapters II, III, IV and V. Transactions may be recorded direct in the ledger, in one journal and posted to the ledger, or in special journals and posted to the ledger; the final results are the same in each case. The Trial Balance, if in balance, proves that the total of the debit amounts recorded in the ledger equals the total of the credit amounts recorded in the ledger; also that the addition of those accounts which have more than one amount recorded on the debit or credit side is correct. The Trial Balance may be made by using the total debits and total credits of each account, or the balance of each account; the final results are the same with either method.

Each account is debited and credited through the recording of business transactions. All money received is recorded on the debit side of the Cash account, and all money paid on the credit side. The value of merchandise purchased is recorded on the debit side of the Purchases account, and the value of merchandise returned to a creditor on the credit side of this account. The value of merchandise sold is recorded on the credit side of the Sales account, and the value of merchandise which customers return is recorded on the debit side of this account. When a customer buys merchandise and does not pay for it at the time it is purchased, his account is debited for the amount; when he pays this obligation to the business, his account is credited. When a business buys merchandise and does not pay for it at the time of purchase, the account with the creditor is credited; when the business pays this obligation, the account with the creditor is debited. When a customer has paid all he owes, his account will be in balance; when the business has paid a creditor all it owes him, his account will be in balance. The expenses of the business are recorded on the debit side of the Expense account. The owner of the business is credited in his Capital account with the investment, and debited with any amount which he withdraws from the investment.

The purpose of special journals is to save time in recording transactions and posting to the accounts in the ledger. When a number of transactions affect the same account, the amounts debited or credited to this account may be posted in one amount if all these transactions are in one journal. The purchases journal contains a record of all transactions in which merchandise is purchased on account; the sales journal contains a record of all transactions in which merchandise is sold on account; the cash book contains a record of all transactions in which cash is received and paid.

QUESTIONS

1. Describe in detail the labor saved in recording one hundred sales of merchandise on account in the sales journal instead of the journal.
2. Describe in detail the labor saved in recording fifty purchases of merchandise on account in the purchases journal instead of the journal.
3. Can you suggest some method of obtaining a copy of a sale made to a customer on account without writing twice the description of the articles sold?
4. Describe in detail the labor saved in recording one hundred sales in the sales journal, Illustration No. 20, instead of the sales journal, Illustration No. 19, provided you have suggested a means of retaining a copy of the items sold without writing them twice.
5. When is it advisable to record the transactions in a cash receipts journal and a cash payments journal?
6. Is it necessary to enter receipts on the left and payments on the right pages of a cash book?

7. Describe in detail the method of proving cash.
8. Would you consider it advisable to prove cash before posting? Give reason for your answer.
9. Describe in detail the method of recording a purchase of merchandise for cash in the cash book and the purchases journal.
10. Describe in detail the method of entering a cash purchase in the cash book only.
11. What account is debited and credited when the total cash receipts and cash payments are posted at the end of the month?
12. Name the account debited when the total of the purchases journal is posted at the end of the month. What accounts show the credits?
13. What account is affected when the total of the sales journal is posted at the end of the month? How?
14. Why is it necessary to post the total of the purchases journal and the total of the sales journal at the end of the month?
15. If the difference between the two sides of the cash book is greater than the cash on hand, what does this indicate?
16. If the difference between the two sides of the cash book is less than the cash on hand, what does this indicate?
17. If you were keeping books for a retail drug store and the difference between the two sides of the cash book was \$10.00 more than the cash on hand, what entry would you make for this \$10.00?
18. Have you seen a cash register in operation? If so, can you explain its connection with the entries in the cash book?
19. What does the total of the debit side of the cash book show?
20. What does the total of the credit side of the cash book show?
21. What does the total of the debit side of the Cash account in the ledger show?
22. What does the total of the credit side of the Cash account in the ledger show?
23. Will the balance of cash on hand, as shown by the cash book on December 31, 1921, show the same amount as the balance of the Cash account in the ledger which shows a record of cash transactions from January 1, 1921 to December 31, 1921?
24. What additional information, which is not shown in the cash book, does the owner of a business obtain from the totals of the two sides of the Cash account in the ledger?
25. Name some of the transactions which the bookkeeper for a retail jewelry business might enter in the general journal.

Chapter VI

A MODEL SET

The Purpose of this Model Set is to illustrate the recording of transactions for a period of two months and to serve as a basis for completing the two practice sets which are separate from the text. The references in connection with each transaction correlate the principles discussed in the preceding chapters with the recording of the transactions. Illustrations Nos. 25-38 show the method of recording the transactions for September and October, ruling the books of account, posting, forwarding accounts, and the Trial Balance at the close of each month. The student is not required to record the transactions for September and October, but he should check them with the entries in the illustrations before he begins the first practice set, or as he proceeds with it.

MEMORANDA OF TRANSACTIONS FOR MODEL SET

September

- I. W. A. Gordon invested \$1,000.00 cash and \$500.00 merchandise in the retail grocery business. (Recorded as in the first entry in Illustration No. 29 and the first entry in Illustration No. 28; §§ 43 and 46. Two accounts are debited, §§ 15 and 17, and one account credited, § 34.)

September, 19

Date	L. F.	Account Credited	Address	Terms	Pur. No.	Amount
2	2	Brown Bros.	City	account	1	79 30
3	3	King & King	City	"	2	136 95
5	2	Brown Bros.	City	cash	3	194
10	2	Brown Bros.	City	account	4	230
15	2	Brown Bros.	City	"	5	248
17	3	Lake View Creamery	Darnton	20 days	6	30
23	2	Brown Bros.	City	10 "	7	199 10
29	3	King & King	City	10 "	8	174 75
30	4	Purchases, Dr. -	Total			1292 10
<i>October, 19</i>						
5	3	Dick, McMillan & Co.	Springfield	15 days	9	381 78
15	3	Lake View Creamery	Darnton	20 "	10	48
16	2	Brown Bros.	City	30 "	11	216 50
20	3	King & King	City	30 "	12	127 65
24	3	Dick, McMillan & Co.	Springfield	15 "	13	117 90
27	3	Dawson Bros & Co.	Lebanon	30 "	14	307 55
28	3	King & King	City	30 "	15	141 37
31	4	Purchases, Dr. -	Total			1340 75

Illustration No. 25, Purchases Journal for Model Set

2. Bought from Brown Bros., City, on account, merchandise per Purchase No. 1, \$79.30. (Recorded as in the first entry, Illustration No. 25; § 38.)
3. Bought from King & King, City, on account, merchandise, per Purchase No. 2, \$136.95. (References same as for above transaction.)
4. Paid \$25.00 cash for city and state license. (Debit § 32; credit § 15.)
5. Sold A. Y. Jordan, 115 Main St., City, on account, merchandise per Sale No. 1, \$16.25. (Recorded as in the first entry, Illustration No. 26; § 40.)
- Bought from Brown Bros., City, for cash, merchandise per Purchase No. 3, \$194.00. (Recorded as in the third entry in Illustration No. 25 and in the second entry in Illustration No. 30.)
6. Received \$32.00 for sundry cash sales to date. (Debit § 15; credit § 18.)
- Paid Brown Bros. \$79.30 in full for merchandise purchased on the 2d. (Recorded as in the third entry, Illustration No. 30; § 28.)
8. Sold People's Hotel, 165 Willis St., City, on account, merchandise per Sale No. 2, \$59.35. (Debit § 27; credit § 18. Illustration No. 26.)

September, 19

Date	L. F.	Account Debited	Address	Terms	Sale No.	Amount
5	1	A. Y. Jordan	115 Main St., City	account	1	16 25
8	1	People's Hotel	165 Willis St., City	"	2	59 35
11	1	A. Y. Jordan	115 Main St., City	"	3	56 25
13	1	W. O. Burns	Kingston	"	4	54 40
16	1	People's Hotel	165 Willis St., City	"	5	51 40
19	1	James O. Wills	416 Broad St., City	"	6	44 30
22	2	James C. Wells	765 E. 9th St., City	"	7	26 05
25	1	People's Hotel	165 Willis St., City	"	8	82 05
26	2	James C. Wells	765 E. 9th St., City	"	9	44 25
27	2	People's Hotel	165 Willis St., City	"	10	80 25
30	2	James O. Wills	416 Broad St., City	"	11	37 56
4		Sales, Cr. - Total				552 11
<i>October, 19</i>						
4	2	J. C. Taylor	3752 Crescent Ave., City	account	12	132 55
6	2	People's Hotel	165 Willis St., City	"	13	142 50
8	1	A. Y. Jordan	115 Main St., City	"	14	38 50
10	1	A. Y. Jordan	115 Main St., City	"	15	42 50
13	2	People's Hotel	165 Willis St., City	"	16	92 90
15	1	W. O. Burns	Kingston	"	17	45 75
17	2	J. C. Taylor	3752 Crescent Ave., City	"	18	86 42
		Carried Forward				581 12

October, 19

Date	L. F.	Account Debited	Address	Terms	Sale No.	Amount
		<i>Brought Forward</i>				581.12
21	2	<i>J. C. Taylor</i>	<i>2752 Crescent Ave., City</i>	<i>account</i>	19	55.40
22	1	<i>James O. Wills</i>	<i>416 Broad St., City</i>	"	20	51.40
23	2	<i>People's Hotel</i>	<i>165 Willis St., City</i>	"	21	162.25
25	2	<i>People's Hotel</i>	<i>165 Willis St., City</i>	"	22	116.65
27	1	<i>W. O. Burns</i>	<i>Kingston</i>	"	23	12.50
28	1	<i>James O. Wills</i>	<i>416 Broad St., City</i>	"	24	38.65
29	2	<i>Robert E. Cowan</i>	<i>2175 Burnet Ave., City</i>	"	25	61.83
31	4	<i>Sales, Cr. - Total</i>				1079.80

Illustration No. 27, Page 2 of the Sales Journal for Model Set.

9. Received \$10.00 from A. Y. Jordan to apply on merchandise sold him on the 5th. (Debit § 15; credit § 27. Illustration No. 29.)
10. Bought from Brown Bros., City, on account, merchandise per Purchase No. 4, \$230.00. (Debit § 17; credit § 28. Illustration No. 25.)
11. Sold A. Y. Jordan, 115 Main St., City, on account, merchandise per Sale No. 3, \$56.25. (Debit § 27; credit § 18. Illustration No. 26.)
12. Received \$30.50 from People's Hotel to apply on account.
13. Received \$40.00 for sundry cash sales to date. (Debit § 15; credit § 18.)
Paid King & King \$100.00 to apply on account. (Debit § 28; credit § 15.)
Sold W. O. Burns, Kingston, on account, merchandise per Sale No. 4, \$54.40. (Debit § 27; credit § 18. Illustration No. 26.)
15. Bought from Brown Bros., City, on account, merchandise per Purchase No. 5, \$248.00. (Debit § 17; credit § 28. Illustration No. 25.)
Proved cash (balance, \$714.20) and posted. (§ 44; § 39; § 41; § 45; § 46, ¶ 5. Illustrations Nos. 33, 34, 35 and 36.)
16. Sold People's Hotel, 165 Willis St., City, on account, merchandise per Sale No. 5, \$51.40. (Illustration No. 26.)
17. Bought from Lake View Creamery, Dayton, on 20 days' time, merchandise per Purchase No. 6, \$30.00. (Illustration No. 25.)
18. Received \$35.00 from W. O. Burns to apply on merchandise sold him on the 13th. (Illustration No. 29.)
19. Sold James O. Wills, 416 Broad St., City, on account, merchandise per Sale No. 6, \$44.30. (Illustration No. 26.)
Allowed People's Hotel credit for \$9.10, one barrel flour, purchased on the 16th, returned because it had been damaged by coming in contact with kerosene. (§ 18, ¶ 1; § 27, ¶ 2; § 46, ¶ 2. Illustration No. 28.)
20. Paid King & King \$36.95 in full of account. (Illustration No. 30.)
Received \$65.00 for sundry cash sales to date. (Illustration No. 29.)
22. Sold James C. Wells, 765 E. 9th St., City, on account, merchandise per Sale No. 7, \$26.05. (Illustration No. 26.)

(Continued on page 65.)

September 1, 19

4	Purchases	✓ 500	
3	W. A. Gordon, Capital		✓ 500
	Merchandise on hand at the beginning of business.		
	✓ 9		
4	Sales	✓ 910	
1	People's Hotel		✓ 910
	1 bbl. flour returned in damaged condition.		
	23		
2	Brown Bros.	✓ 1260	
4	Purchases		✓ 1260
	3 cases canned peaches at \$4 ²⁰ , purchased 7/10, returned per agreement.		
	October 24		
1	James O. Wells	3756	
2	James C. Wells		3756
	To correct error in account debited for sale of 7/30		
	20		
3	Brown Bros.	10	
4	Purchases		10
	To correct error in extension for purchase of 7/30.		
	241		
4	Sales	375	
1	A. Y. Jordan		375
	2 hams sold 1/10 returned.		
	27		
2	W. O. Burns	60	
4	Expense		60
	Stamps used to send merchandise sold this date, by parcel post.		

23. Bought from Brown Bros., City, on 10 days' time, merchandise per Purchase No. 7, \$199.10. (Illustration No. 25.)
Received credit from Brown Bros. for \$12.60, three cases of canned peaches at \$4.20, purchased on the 10th, returned per agreement. (§ 28, ¶ 1; § 17, ¶ 2; § 46, ¶ 2. Illustration No. 28.)
24. Received \$15.00 from People's Hotel to apply on account.
25. Sold People's Hotel, 165 Willis St., City, on account, merchandise per Sale No. 8, \$82.05. (Illustration No. 26.)
26. Received \$6.25 from A. Y. Jordan in full for merchandise sold him on the 5th. (Illustration No. 29.)
Sold James C. Wells, 765 E. 9th St., City, on account, merchandise per Sale No. 9, \$44.25. (Illustration No. 26.)
27. Sold People's Hotel, 165 Willis St., City, on account, merchandise per Sale No. 10, \$80.25. (Illustration No. 26.)
Received \$44.50 for sundry cash sales to date. (Illustration No. 29.)
29. Bought from King & King, City, on 10 days' time, merchandise per Purchase No. 8, \$174.75. (Illustration No. 25.)
Received \$65.00 from People's Hotel to apply on account.
30. Paid Brown Bros. \$150.00 to apply on merchandise purchased on the 15th. (Illustration No. 30.)
Sold James O. Wills, 416 Broad St., City, on account, merchandise per Sale No. 11, \$37.56. (Illustration No. 26.)
Paid bookkeeper's salary for September, \$75.00; rent for September, \$65.00. (§ 32, ¶ 1; § 15, ¶ 2. Illustration No. 30.)
Proved cash (balance, \$618.00), and ruled the cash book. Posted* from the purchases, sales and general journals, and the cash book. Footed and ruled the purchases journal and sales journal; posted the total purchases, sales, cash receipts and cash payments. Took a Trial Balance of balances; checked the Trial Balance because it did not balance due to an error in posting. (Illustration No. 37.)

The check marks on the double line at the left of each amount in the books of original entry indicate that the September Trial Balance did not balance and it was necessary for the bookkeeper to check the posting to ascertain the error. These check marks should be made on the double line to avoid confusion with the figures. It is not always possible to show the exact position of these check marks in the illustrations due to the variation in printing.

October

1. W. A. Gordon withdrew \$200.00 cash from his capital.
Bought from Dick, McMillan & Co., Springfield, on 15 days' time, merchandise per Purchase No. 9, \$381.78.
2. Received \$50.00 from James C. Wells to apply on account. He called attention to our error in debiting him with the sale of September 30; made a correcting entry to adjust this.
Paid the Central Transfer Co. \$2.25 cash for freight and drayage on merchandise purchased on September 17.
3. Received \$100.00 from People's Hotel to apply on account.

*The accounts resulting from this posting are illustrated on pages 70-73. The arrangement of the accounts in these illustrations is in the same order as the information will be needed in the preparation of the reports to be provided the owner. The reports to be prepared from these accounts are explained in Chapter VII.

3. Paid Brown Bros. \$199.10 in full for merchandise purchased on Sept. 23.
4. Sold J. C. Taylor, 3752 Crescent Ave., City, on account, merchandise per Sale No. 12, \$132.55.
Received \$87.65 for sundry cash sales to date.
6. Paid Mrs. W. B. Scott \$2.50 for two brooms which she bought and paid for on the 4th and returned to us per agreement.
Sold People's Hotel, 165 Willis St., City, on account, merchandise per Sale No. 13, \$142.50.
7. Received \$50.00 from James O. Wills to apply on account.
Paid Lake View Creamery \$30.00 in full for merchandise purchased Sept. 17.
8. Sold A. Y. Jordan, 115 Main St., City, on account, merchandise per Sale No. 14, \$38.50.
9. Paid King & King \$174.75 in full of account.
Paid Brown Bros. \$200.00 to apply on merchandise purchased September 10.
10. Sold A. Y. Jordan, 115 Main St., City, on account, merchandise per Sale No. 15, \$42.50.

Cash

Receipts

			Cash		Receipts			
19								
Sept.	1	3	W. A. Gordon, Capital	Investment	11000			
	6	4	Sales	Cash sales	32			
	9	1	A. Y. Jordan	Acct. of sale, $\frac{1}{5}$	10			
	12	1	People's Hotel	On account	3050			
	13	4	Sales	Cash sales	4050			
	18	1	W. O. Burns	Acct. of sale, $\frac{1}{3}$	35			
	20	4	Sales	Cash sales	65			
	24	1	People's Hotel	On account	15			
	26	1	A. Y. Jordan	Full of sale $\frac{1}{5}$	625			
	27	4	Sales	Cash sales	4450			
	29	2	People's Hotel	On account	65			
	30	1	Cash, Dr.	Total receipts	134325			
Oct.	1	✓	Balance	On hand			618	
	2	2	James C. Wells	On account	50			
	3	2	People's Hotel	" "	100			
	4	4	Sales	Cash sales	8765			
	7	1	James O. Wills	On account	50			
	11	1	W. O. Burns	Full of sale $\frac{1}{3}$	1940			
	14	4	Sales	Cash sales	10980			
	15	2	People's Hotel	On account	50			
			Carried Forward	25775	46685			
					46685		618	

11. Received \$19.40 from W. O. Burns in full for merchandise sold him Sept. 13.
Received \$109.80 for sundry cash sales to date.
13. Paid \$18.50 for repairs in the office.
Sold People's Hotel, 165 Willis St., City, on account, merchandise per Sale No. 16, \$92.90.
15. Bought from Lake View Creamery, Dayton, on 20 days' time, merchandise per Purchase No. 10, \$48.00.
Received \$50.00 from People's Hotel to apply on account.
Sold W. O. Burns, Kingston, on account, merchandise per Sale No. 17, \$45.75.
Proved cash (balance, \$257.75) and posted.
16. Bought from Brown Bros., City, on 30 days' time, merchandise per Purchase No. 11, \$216.50.
Paid Dick, McMillan & Co. \$381.78 in full of account.
17. Sold J. C. Taylor, 3752 Crescent Ave., City, on account, merchandise per Sale No. 18, \$86.42.
Paid \$5.00 for stamps.
18. Paid Brown Bros. \$98.00, balance due on merchandise purchased Sept. 15.
Received \$129.50 for sundry cash sales to date.

Cash

Payments

19									
Sept.									
4	4	Expense	City and state license	✓	25				
5	2	Brown Bros.	Cash purchase	✓	194				
6	2	Brown Bros.	Full of purchase, 1/2	✓	79	30			
13	3	King & King	On account	✓	109	80			
20	3	King & King	Full of account	✓	36	95			
30	2	Brown Bros.	Act. of purchase, 1/5	✓	150				
30	4	Expense	Dick's salary, rent	✓	140	25			
30	1	Cash Cr.	Total payments				✓	725	25
30		Balance						618	
								1343	25
Oct.	7	3	W. A. Gordon, Capital	Withdrawn from Capital	200				
	2	4	Purchases	Freight and drayage		225			
	3	2	Brown Bros.	Full of purchase, 1/2	199	10			
	6	4	Sales	Merch. returned		250			
	7	3	Lake View Creamery	Full of purchase, 1/7		30			
	9	3	King & King	Full of account	174	75			
	9	2	Brown Bros.	Act. of purchase, 1/10		200			
	13	4	Expense	Repairs in office		18	50		
Carried Forward					827	10			

Cash				Receipts	
19			Brought Forward	466 85	618
Oct.	18	4	Sales	Cash sales	129 50
	21	4	Expense	Sold stamps	50
	22	2	People's Hotel	Full of sales in Sept	3 45
	23	1	W. O. Burns	On account	25
	25	2	James C. Wells	Full of account	20 30
	27	4	Sales	Cash sales	136 45
	29	2	People's Hotel	On account	50
	30	1	A. Y. Jordan	Full of sale 7/11	56 25
	31	2	J. C. Taylor	On account	150
	31	4	Sales	Cash sales	87 19
	31	1	Cash, Dr	Total receipts	1125 49
Nov.	1	-	Balance	On hand	291 61

Illustration No. 31, Page 4, Receipts Side of Cash Book for Model Set.

20. Bought from King & King, City, on 30 days' time, merchandise per Purchase No. 12, \$127.65.
Discovered an error of \$10.00 in the calculations for the purchase from Brown Bros. on September 23, and received instructions from them to debit their account with this amount.
21. Sold J. C. Taylor, 3752 Crescent Ave., City, on account, merchandise per Sale No. 19, \$55.40.
Sold a customer stamps for cash, 50c.
22. Received \$3.45 from People's Hotel in full for all merchandise sold them in September, less all credits to date.
Sold James O. Wills, 416 Broad St., City, on account, merchandise per Sale No. 20, \$51.40.
23. Received \$25.00 from W. O. Burns to apply on account.
Sold People's Hotel, 165 Willis St., City, on account, merchandise per Sale No. 21, \$162.25.
24. Gave A. Y. Jordan credit for \$3.75, two hams sold him on the 10th and returned per agreement.
Bought from Dick, McMillan & Co., Springfield, on 15 days' time, merchandise per Purchase No. 13, \$117.90.
25. Sold People's Hotel, 165 Willis St., City, on account, merchandise per Sale No. 22, \$116.65.
Received \$20.30 from James C. Wells in full of account.
27. Received \$136.45 for sundry cash sales to date.
Bought from Dawson Bros. & Co., Lebanon, on 30 days' time, merchandise per Purchase No. 14, \$307.55.

Cash

				Payments			
19			Brought Forward		827	10	
Oct.	16	3	Dick, McMillan & Co.	Full of account	381	78	
	17	4	Expense	Bought stamps	5		
	18	3	Brown Bros.	Full of purchase ^{75.00} _{65.25}	98		
	31	4	Expense	Bkrs salary, rent	140		
	31	1	Cash, Cr.	Total payments			1451 88
							1743 49
							Balance

Illustration No. 32, Page 5, Payments Side of Cash Book for Model Set.

27. ✓ Sold W. O. Burns, Kingston, on account, merchandise per Sale No. 23, \$12.50. Shipped package to him by parcel post and debited his account with 60c, the required amount of postage.
28. ✓ Sold James O. Wills, 416 Broad St., City, on account, merchandise per Sale No. 24, \$38.65.
✓ Bought from King & King, City, on 30 days' time, merchandise per Purchase No. 15, \$141.37.
29. Received \$50.00 from People's Hotel to apply on account.
Sold Robert E. Cowan, 3175 Burnet Ave., City, on account, merchandise per Sale No. 25, \$61.83.
30. ✓ Received \$56.25 from A. Y. Jordan for balance due on merchandise sold him September 11.
31. ✓ Received \$150.00 from J. C. Taylor to apply on account.
✓ Received \$87.19 for sundry cash sales to date.
Paid bookkeeper's salary for October, \$75.00; rent for October, \$65.00.
Proved cash (balance, \$291.61) and ruled the cash book.
Took stock of the merchandise in the store so that the bookkeeper might prepare the necessary reports showing the assets, liabilities, income, costs and net income for the two months during which the business has been operated. The usual monthly Trial Balance was taken including the information necessary in the preparation of reports. Balanced the Cash account.

The foregoing instructions include posting all entries, ruling the purchases and sales journal, and the posting of the total purchases, sales, cash receipts and cash payments. The results of the instructions are shown in Illustrations Nos. 25-36 and 38. The Cash account after it is balanced is shown at the top of page 70; it is customary to balance the Cash account at the end of the business year. The work of preparing the reports of the operations of the business showing the facts which Mr. Gordon desires are explained in Chapter VII.

Cash

19					19				
Sept.	30	618.00	C2	11343 25	Sept.	30		C3	✓ 725 25
Oct.	31		C4	1125 49 2468 74	Oct.	31		C5	1451 88 277 61
				2468 74					2468 74
Nov.	1	Balance	✓	291 61					
A. Y. Jordan									
					115	Main St.	City		
19					19				
Sept.	5		L1	ca 16 25	Sept.	9		C2	a 10
	11	56.25	L1	✓ 56 25		26		C2	a 62 5
Oct.	8		L1	38 50	Oct.	24	Returned	L1	b 37 5
	10	77.25	L1	b 42 50 37 25		30		C4	c 56 25
People's Hotel									
					165	Willis St.	City		
19					19				
Sept.	8		L1	✓ 59 35	Sept.	12		C2	✓ 30 50
	16		L1	✓ 51 40		19	Returned	L1	✓ 9 10
	25		L1	✓ 82 05		24		C2	✓ 52 60
				192 80		25	Ret. carried fwd	✓	52 60
									192 80
W. O. Burns									
19					19				
Sept.	13	19.40	L1	a 54 40	Sept.	18		C2	a 35
Oct.	15		L1	45 75	Oct.	11		C2	a 19 48
	27		L2	12 50		23		C4	25
	27	Postage 33.85	L1	58 60 85					
James O. Wills									
					416	Broad St.	City		
19					19				
Sept.	19	44.30	L1	44 30	Oct.	7		C2	50
Oct.	2	Sept. 30 - arch	L1	37 56					
	22		L2	51 40					
	28	121.91	L2	38 65 91					

Illustration No. 33, Page 1 of the Ledger for Model Set.

James C. Wells

765 E. 9th St. City

¹⁹ Sept.	22		L1	✓	26 05	¹⁹ Oct	2		C2	50
	26		L1	✓	44 25		2		L1	37 56
	30	107 86	L1	✓	37 56		25		C4	20 30
					107 86					107 86

J. C. Taylor

3752 Crescent Ave. City

¹⁹ Oct.	4		L1		132 55	¹⁹ Oct.	31		C4	150
	17		L1		86 42					
	21	124.37	L2		55 40					
					274 37					

Robert E. Cowan

3175 Burnet Ave. City

¹⁹ Oct.	29	61 83	L2		61 83					
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Peoples Hotel

165 Willis St. City

¹⁹ Sept.	25	Balbrin's forward	1		138 20	¹⁹ Sept.	29		C2	65
	27	153.45	L1	✓	80 25	¹⁹ Oct.	3		C2	100
					218 45		15		C2	50
Oct.	6		L1		142 50		22		C4	34 5
	13		L1		92 90		29		C4	50
	23		L2		162 25					
	25	464.30	L2		116 65					
					514 30					

Brown Bros.

City

¹⁹ Sept.	5		C3	2	194	¹⁹ Sept.	2		P1	79 30
	6		C3	2	79 30		5		P1	194
					279 30		10		P1	230
	23	Returned	L1	✓	126 0		15		P1	248
	30		C3	2	150 60		23	10 days 514.50	P1	199 10
Oct.	3		C3	2	199 10				P1	677 10
	9		C3	2	220 70	Oct.	16	30 "	P1	216 50
	16	Carried forward	3		561 70			Carried forward	3	893 60

King & King City

¹⁹ Sept. 13	C3 ✓ 100	¹⁹ Sept. 3	P1 ✓ 136.95
20	C3 ✓ 36.95	29 10 days 1,74.75	P1 ✓ 174.75
Oct. 9	C3 ✓ 174.75	Oct. 20 30 "	P1 ✓ 127.65
		28 30 " 269.02	P1 ✓ 141.37 269.02

Lake View Creamery

Dayton

¹⁹ Oct. 7	C3 30	¹⁹ Sept. 17 20 days 30.00	P1 ✓ 30
		Oct. 15 20 " 48.00	P1 48

Dick, McMillan & Co

Springfield

¹⁹ Oct. 16	C5 381.78	¹⁹ Oct. 1 15 days	P1 381.78
		24.15 " 117.90	P1 117.90

Dawson Bros & Co.

Lebanon

¹⁹ Oct. 27	30 days 307.55	P1 307.55
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Brown Bros.

City

¹⁹ Oct. 16	Brot. forward 2 561.70	¹⁹ Oct. 16	Brot. forward 2 893.60
18	C5 d 98		223.90
20	Error & 1 669.70		

W. A. Gordon, Capital

¹⁹ Oct. 1	C3 200	¹⁹ Sept. 1	C2 1000
		1 1300.00	P1 1500.00

Sales

¹⁹ Sept. 19		Dr ✓	910	¹⁹ Sept 6		Cr ✓	32
Oct. 6		Cr	250	13		Cr ✓	40
24		Dr	375	20		Cr ✓	65
			535	27		Cr ✓	4450
				30	724.51	Dr ✓	55211
				Oct. 4		Cr	8765
				11		Cr	10980
				18		Cr	12950
				27		Cr	13645
				31		Cr	8719
				31		Dr	107980
							236450

Purchases

¹⁹ Sept 1	Inventory	Dr	500	¹⁹ Sept 23		Dr ✓	1260
30	1779.50	Dr	1779.50	Oct. 20		Dr	1000
Oct. 2	Freight & Drayage	Cr	225	31			
31		Dr	1340	31			
			313575				

Expense

¹⁹ Sept. 4		Cr ✓	25	¹⁹ Oct. 21	Stamps	Cr	50
30	165.00	Cr ✓	140	27	"	Dr	60
Oct. 13		Cr	1850				
17		Cr	5				
31	327.40	Cr	140				
			32850				

W. A. Gordon
Trial Balance, September 30, 19

1	Cash	✓ 618	
1	A. Y. Jordan	✓ 5625	
1	W. O. Burns	✓ 1940	
1	James O. Wells	✓ 4430	
2	James C. Wells	✓ 10786	
2	People's Hotel	✓ 15345	
2	Brown Bros		✓ 51450
3	King & King		✓ 17475
3	Lake View Creamery		✓ 30
3	W. A. Gordon, Capital		11500
4	Sales		✓ 72451
4	Purchases	11779.50	
4	Expense	✓ 165	
		294376	294376
		294376	294376

Illustration No. 37, Trial Balance of Balances for First Month of Model Set.

W. A. Gordon
Trial Balance October 31, 19

1	Cash	29161	
1	A. Y. Jordan	7725	
1	W. O. Burns	3385	
2	James O. Wells	12191	
2	J. C. Taylor	12437	
2	Robert E. Cowan	6183	
2	People's Hotel	46430	
3	King & King		26902
3	Lake View Creamery		48
3	Dick, Mc Millan & Co.		11790
3	Dawson Bros. & Co.		30755
3	Brown Bros.		22390
3	W. A. Gordon, Capital		1300
4	Sales	1535	2364
4	Purchases (Inv 500. ⁰⁰ , Pur 2635. ⁰⁰)	313510	2260
4	Expense	32740	
		465297	465297
		465297	465297

Illustration No. 38, Trial Balance for Second Month of Model Set.

The purpose of showing both sides of the Purchases and Sales accounts, the merchandise inventory at the beginning of the fiscal period and purchases during the period is explained in Chapter VII.

Exercise No. 26, Recording Transactions, Posting and Trial Balance.

Record the transactions given below in the purchases, sales and general journals, and the cash book. All purchases and sales except those for cash are "on account" and are entered in the purchases or sales journal; number the entries in each of these journals in regular order, beginning with one.

- April
1. J. N. Fulton invests \$1,500.00 in the radio supply business.
 2. Bought from Standard Radio Co., Chicago, supplies, \$681.70.
 3. Paid rent for month, \$45.00, and telephone service, \$15.00.
 4. Sold Davis Bros., City, 100 ft. No. 14 aerial wire, 45c; 1 Willard radio storage battery, \$12.00.
 5. Paid \$365.87 for cash purchase of radio supplies.
 9. Bought from the Radio Service Co., Dayton, supplies, \$962.48.
 12. Paid \$37.50 insurance on stock. (Debit Expense.)
 15. Received for cash sales to date, \$350.60.
 17. Paid \$25.00 for stamps and stationery.
 18. Paid Standard Radio Co. \$38.70, on account.
Received credit from Radio Service Co. for supplies returned, \$20.15.
 19. Sold Caleb Fall, City, 1 Thordarson amplifying transformer, \$4.00; 1 Remler detector panel, \$8.00.
 20. Sold Jacob Dolittle, City, 200 ft. 7-strand aerial wire, \$1.50; 1 doz. aerial insulators, \$3.00; 2 test buzzers, \$1.30; 2 Willard storage batteries, \$24.00; 2 doz. switch points, 60c.
 23. Sold Joe Smith, for cash, 200 ft. No. 14 aerial wire, 90c.
 24. Gave Joe Smith 45c for 100 ft. aerial wire which he returned.
 26. Received \$15.00 from Jacob Dolittle, to apply on account.
 27. Sold A. J. Bowen, Columbus, 1 mounted crystal detector, \$1.95. Debit his account with 75c, postage required on this shipment.
 30. Sold A. F. Shaw, City, 1 complete radio outfit, \$125.00, to be installed under our inspection, installation cost to be paid by him.
Received for cash sales to date, \$414.85.
Paid clerk's salary, \$80.00.

Prove cash (balance, \$1,673.83), rule the cash book and purchases and sales journals, and post all entries including the totals. Arrange the accounts in the ledger as in the Model Set, allowing five lines for each personal account and eight lines for each of the other accounts. Take a Trial Balance of balances.

- May
1. Sold Davis Bros., City, 6 "B" Batteries, 22½ volt, \$11.70; 1 loud speaker, \$15.00; 1 filament rheostat, \$1.25.
 2. Bought from Standard Radio Co., Chicago, supplies, \$343.60.
Received for cash sales to date, \$157.81.
Gave the Radio Service Co. \$600.00 to apply on account.
 3. Sold Caleb Fall, City, 1 New Howard rheostat, \$1.10; 6 porcelain V. T. sockets, \$2.70.
Received check from A. J. Bowen in full of account.
Received a bill from the Kelly Electric Co. for \$24.50, installation cost of the radio outfit sold A. F. Shaw on April 30.
Debit A. F. Shaw and credit Kelly Electric Co. in the general journal.
 4. Paid Lawton Express Co. \$26.17, freight and drayage on purchases.
Gave Caleb Fall credit for 45c because one of the porcelain V. T. sockets sold him on the third was defective.
Sold the entire stock of merchandise for \$2,000.00 cash.

Prove cash (balance \$3,208.17), rule the cash book and purchases and sales journals, and post all entries including the totals. Take a Trial Balance, using both sides of the Sales and Purchases accounts and the balances of the other accounts.

Retain the ledger and Trial Balance for use in Exercise No. 40.

QUESTIONS ON THE MODEL SET

These questions refer to Illustrations Nos. 25-38.

1. What do the check marks (✓) at the left of the amounts in the books of original entry, ledger, and Trial Balance for the month of September, indicate?
2. Why are there no check marks at the left of the amounts for the month of October?
3. Why did the Trial Balance September 30 balance when there was an error in one of the accounts as indicated by the adjusting entry in the general journal October 2?
4. Explain the transactions recorded in the account of A. Y. Jordan without referring to a book of original entry.
5. Why is the Expense account credited in the general journal entry of October 27?
6. Does the general journal entry of October 2 change the value of the assets or liabilities of the business?
7. Why is the People's Hotel account not ruled on the same blue line on each side on October 22?
8. Explain the transactions in the account of Brown Bros. without referring to a book of original entry.
9. When is payment due for the merchandise purchased from Brown Bros. October 16?
10. Why are both sides of the account with Brown Bros. carried forward and the balance of the account with the People's Hotel carried forward?
11. What indicates that the People's Hotel account is that of a customer and Brown Bros. that of a creditor?
12. What is the balance due on the merchandise sold A. Y. Jordan October 10?
13. Why not forward the totals of both columns of the general journal in the same manner as the totals of the purchases journal and sales journal?
14. Why is the total of each side of the cash book forwarded and not the balance?
15. When is it necessary to forward the totals of a book of original entry?
16. What information is shown in the Cash account which is not shown in the cash book?
17. Why is the double ruling in the cash book on the same blue line on each side?
18. Why is it necessary to write in the cash book the date of the purchase or sale when cash is paid or received to apply on that particular purchase or sale?
19. Why is the cash balance carried down below the double ruling on the debit side of the cash book and entered in the second column?
20. What information of value does the owner of the business obtain from the entries on the debit side of the Sales account?
21. Why is the Purchases account credited in the general journal entry of September 23?
22. Why is the Sales account debited in the general journal entry of October 24?
23. If Sales had been credited for the first transaction of October 23, (a) what accounts would have been affected and (b) how affected?
24. If the owner wished to know the value of merchandise in stock, from what accounts could he ascertain this information?
25. Why is W. O. Burns debited in the general journal entry of October 27?

Chapter VII

BALANCE SHEET AND STATEMENT OF PROFIT AND LOSS

The Purpose of this Chapter is to explain the Balance Sheet and Statement of Profit and Loss—two reports prepared by the bookkeeper for the information of the owner. The illustrations are applicable to the business of W. A. Gordon in the Model Set, Chapter VI. The income tax return for an individual is explained and illustrated in Appendix C.

§ 47. **Fiscal Period.** The owner of a business will want to know from time to time the results of his operations because he has invested cash or other assets in the business with the purpose of making a profit. Since the Federal Government requires a report of the results of the operations of the business for one year in order to ascertain the amount of income tax the business is to pay, the owner usually ascertains the results of operating the business yearly. However, if the nature of the business is such that the profit should be ascertained more often, the owner can obtain this information at such times as he desires, but this does not release him from the yearly report required by the Federal Government. The period of operation for which the profit is ascertained is referred to as the *fiscal period*, which, as explained, may be for one year or such part of a year as the owner may designate.

§ 48. **Method of Ascertaining the Profit or Loss.** The profit or loss resulting from the operations of a business is (1) the difference between the proprietorship at the beginning and the proprietorship at the end of a fiscal period, and (2) the difference between the income and the cost for the period. If the value received and the value parted with in each transaction are recorded, the profit or loss will be the same with each of the two methods. When ascertaining the profit or loss by subtracting the proprietorship at the beginning and end of the period, it is necessary to take into consideration withdrawals from capital and additional investments during the period.

The proprietorship of W. O. Crosswhite, a retail grocer, January 1, is \$8,000.00, and on December 31 of the same year, \$11,500.00. If he has not withdrawn part of his invested capital or invested additional capital during the year, his net profit is \$3,500.00; if he had withdrawn \$500.00 from his capital during the year, his net profit would have been \$4,000.00, and if he had invested an additional \$500.00 during the year, his net profit would have been \$3,000.00. If, during the same year, the income resulting from the operations of the grocery business conducted by Mr. Crosswhite is \$6,500.00 and the cost, \$3,000.00, his net profit is \$3,500.00. It is necessary for Mr. Crosswhite to know the amount of the income and cost as well as the net profit, because he must submit this information on his income tax return as explained in Appendix C.

§ 49. **A Merchandise Inventory** is the value of all merchandise in stock at the close of a fiscal period as shown by a written list of this merchandise. The information on this list includes the quantity and description of each kind of merchandise and its value at cost or present market price whichever is the lower.

It is necessary to ascertain the value of the merchandise owned by the business through an inventory at the close of the fiscal period because it is one of the assets and its value is not shown in either the Purchases or the Sales account. The Pur-

chases account shows the cost of the merchandise bought, and the Sales account the returns from sales, but the value of the merchandise in stock is not shown as a result of this record because the selling price is greater than the cost price.

A unit record of the merchandise purchased and sold may be kept in certain lines of business, such as musical instruments, shoes, clothing, and furniture; but in other lines, such as hardware, groceries, and dry goods, it is not practicable to keep a record of each unit purchased and sold. It is necessary to ascertain the value of merchandise in stock by an inventory at the close of the fiscal period whether or not a record of the units purchased and sold is kept, because of thefts, errors in filling orders, and many other causes which result in the number of units shown by the record not corresponding with the number of units on hand.

An inventory of the following merchandise owned by W. A. Gordon and in stock by actual count at the close of the fiscal period ending October 31, would appear in inventory form as in Illustration No. 25:

Granulated sugar, 1,216 lbs., cost \$4.50 per 100 lbs.; 1,183 lbs. brown sugar, cost \$4.10 per 100 lbs.; 256 lbs. roasted coffee, cost 22c per lb.; 1,802 lbs. bacon, cost 15c per lb.; 8 hams, 183 lbs., cost 17c per lb.; 5 cans, 261 lbs., lard, cost 16c per lb.; 24 doz. cans tomatoes, cost \$1.10 per doz.; 20 doz. cans pineapples, cost \$2.00 per doz.; 18 doz. cans peaches, cost \$1.95 per doz.; 20 doz. cans corn, cost \$1.50 per doz.; 268 lbs. creamery butter, cost 33c per lb.; 60 bbls. Blue Ribbon flour, cost \$5.10 per bbl.; 34 bbls. White Rose flour, cost \$5.25 per bbl.; 25 bbls. Fancy flour, cost \$6.00 per bbl.; 25 bu. beans, cost \$1.60 per bu.; 20 bxs. Werk's soap, cost \$4.00 per box.

W. A. Gordon
Merchandise Inventory, October 31, '19

1216	lbs. Granulated Sugar (per 100#)	4.50	54	72
1183	" Brown Sugar	4.10	48	50
256	" Roasted Coffee	.22	56	32
1802	" Bacon	.15	270	30
8	Hams, 183 lbs	.17	31	11
5	cans 261 lbs Lard	.16	41	76
24	doz. cans Tomatoes	1.10	26	40
20	" " Pineapples	2.00	40	
18	" " Peaches	1.95	35	10
20	" " Corn	1.50	30	
268	lbs. Creamery Butter	.33	88	44
60	bbls Blue Ribbon Flour	5.10	306	
34	" White Rose Flour	5.25	178	50
25	" Fancy Flour	6.00	150	
25	bu. Beans	1.60	40	
20	bxs. Werk's Soap	4.00	80	
Value of Merchandise on hand			1477	15

Illustration No. 39, Inventory of Groceries, Model Set.

EXPLANATION. The quantities indicated by the figures at the left were obtained by weighing or counting the articles in stock. The price was ascertained from the invoices. This price includes not only the invoice cost but also the freight cost. The figures at the right were ascertained by multiplying the quantity by the price.

Exercise No. 27, Merchandise Inventory.

Prepare on journal paper an inventory for the following merchandise owned by the Fred B. Jenkins Hardware Co. and in stock December 31:

Nails, 10 kegs 8-d., cost \$4.50 per keg; 15 kegs 10-d. nails, cost \$4.25 per keg; 12 doz. No. 9 hammers, cost \$9.00 per doz.; 7 doz. No. 4 Simmons saws, cost \$10.00 per doz., present market price, \$9.00 per doz.; 5 doz. No. 3 hatchets, cost \$8.00 per doz., present market price \$7.00 per doz.; 50 gal. Lucas paint, cost \$1.75 per gal., present market price, \$1.60 per gal.; 25 gal. varnish, cost \$2.00 per gal.; 159 lbs. white lead, cost 42c per lb.; 5 No. 3 gas stoves, cost \$7.50 each.

Exercise No. 28, Merchandise Inventory.

Prepare on journal paper an inventory for the following merchandise owned by U. R. Underhill Stationery Co., and in stock June 30:

Typewriter desks, 8, cost \$65.00 each; 5 used typewriters, cost \$62.50 each; 7 chairs, cost \$4.50 each; 3 bookkeeper's desks, cost \$27.50 each; 14 loose-leaf ledgers, cost \$16.50 each; 27 sections No. 9 filing cases, cost \$5.60 each; 5 filing cases, cost \$6.50 each; 500 reams typewriting paper, cost 35c per ream, present market price, 38c per ream; 65 reams legal paper, cost 90c per ream, present market price, 97c per ream; 150 doz. pen points, cost 32c per doz..

THE BALANCE SHEET

§ 50. The Balance Sheet is a written report of the assets, liabilities, and proprietorship of a business prepared at the close of a fiscal period. The information is obtained from the asset and liability accounts in the ledger (Trial Balance) and the merchandise inventory at the close of the fiscal period. The assets are usually listed as follows: cash, notes receivable (written promises to pay money to the business), accounts with customers, and merchandise inventory. The liabilities are usually listed as follows: notes payable (written promises signed by the business), and accounts with creditors. The accounts should be arranged in the ledger in the order in which they appear on the Balance Sheet.

The Balance Sheet may be prepared in "account" form (Illustration No. 40) or "report" form (Illustration No. 41). Either form is correct, but accountants usually prefer the account form because it shows assets opposite liabilities; this information is of value to the owner of the business in determining his financial condition because the liabilities must be paid out of the assets.

The assets and liabilities of W. A. Gordon as shown by the accounts in his ledger on pages 70, 71 and 72, October 31, are as follows:

Assets:

Cash.....	\$291.61
Accounts Receivable:	
A. Y. Jordan.....	77.25
W. O. Burns.....	33.85
James O. Wills.....	121.91
J. C. Taylor.....	124.37
Robt. E. Cowan.....	61.83
People's Hotel.....	464.30

Liabilities:**Accounts Payable:**

King & King.....	269.02
Lake View Creamery.....	48.00
Dick, McMillan & Co.....	117.90
Dawson Bros. & Co.....	307.55
Brown Bros.....	223.90

Merchandise Inventory, October 31 (Illustration No. 39), \$1,477.15.

A Balance Sheet prepared in account form from this information will appear as in Illustration No. 40, and in report form, as in Illustration No. 41.

W. A. Gordon
Balance Sheet, October 31, 19

<i>Assets:</i>		<i>Liabilities:</i>	
Cash	291 61	King & King	269 02
A. Y. Jordan	77 25	Lake View Creamery	48
W. O. Burns	33 85	Dick, McMillan & Co.	117 90
James O. Willis	121 91	Dawson Bros. & Co.	307 55
J. C. Taylor	124 37	Brown Bros.	223 90
Robert E. Cowan	61 83	Total Liabilities	966 37
People's Hotel	464 30	Capital Account:	
Merch. Inventory Oct. 31	1472 15	W. A. Gordon Capital	1685 90
Total Assets	2652 27	Total Liabilities and Capital	2652 27

Illustration No. 40, Balance Sheet for Model Set, "Account" Form.

EXPLANATION. This illustration shows the Balance Sheet for W. A. Gordon, prepared in "account" form from the accounts in the ledger on pages 70, 71 and 72 (Trial Balance, page 74) and the inventory of merchandise, page 78. The same information is shown in "report" form in the illustration below.

W. A. Gordon
Balance Sheet, October 31, 19

<i>Assets:</i>		<i>Liabilities:</i>	
Cash	291 61	King & King	269 02
A. Y. Jordan	77 25	Lake View Creamery	48
W. O. Burns	33 85	Dick, McMillan & Co.	117 90
James O. Willis	121 91	Dawson Bros. & Co.	307 55
J. C. Taylor	124 37	Brown Bros.	223 90
Robert E. Cowan	61 83	Total Liabilities	966 37
People's Hotel	464 30	W. A. Gordon Present Capital	1685 90
Merch. Inventory, Oct. 31	1472 15		
Total Assets	2652 27		
			2652 27

Illustration No. 41, Balance Sheet for Model Set, "Report" Form.

Exercise No. 29, Balance Sheet.

Prepare a Balance Sheet in account form for J. J. Hagan, who is engaged in the office supplies business, from the following assets and liabilities as shown by the accounts in his ledger at the close of the fiscal period, December 31:

Assets:

Cash.....\$357.50

Accounts Receivable:

L. A. Stallman.....	150.00
W. R. Jones.....	63.50
Sinton Hotel.....	132.65
W. H. Wilson.....	14.50
Robert W. Hill.....	35.00
J. J. Anderson.....	36.18
H. R. Kraus.....	130.00

Liabilities:**Accounts Payable:**

A. Martin Stationery Co.....	\$180.00
Hall Bros.....	127.50
Laurence & Scott.....	205.07
O. L. Robertson.....	192.90
Central Mfg. Co.....	182.55
Globe-Wernicke Co.....	100.00

Merchandise Inventory, December 31, \$865.40.

Exercise No. 30, Balance Sheet.

Prepare a Balance Sheet in account form for C. M. Becket, a hardware merchant, from the following assets and liabilities as shown by the accounts in his ledger at the close of the fiscal period, June 30:

Assets:

Cash.....\$850.00

Accounts Receivable:

C. R. Carter.....	50.00
J. A. Smith.....	38.50
John B. Dawes.....	76.19
A. J. Baird & Son.....	39.90
Johnson Construction Co.....	125.50
B. H. Franklin.....	207.90
C. C. Ernst.....	260.00

Liabilities:**Accounts Payable:**

Evans Bros. Hdwe. Co.....	\$160.00
D. D. Bowen.....	350.00
Smith Bros.....	107.60
A. L. Games & Co.....	135.00
Pickering Hardware Co.....	150.00

Merchandise Inventory, June 30, \$442.85.

Exercise No. 31, Balance Sheet.

Prepare a Balance Sheet in report form for C. H. Sheller, an automobile dealer, from the following assets and liabilities as shown by the accounts in his ledger at the close of the fiscal period, July 31:

Assets:

Cash.....	\$6,741.85
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Accounts Receivable:

J. W. Hayes.....	44.75
J. J. Davis.....	52.40
Robert Humphries.....	452.00
A. L. Arnot.....	9.65
T. M. Bowen.....	55.15

Liabilities:**Accounts Payable:**

Packard Automobile Co.....	\$1,500.00
Warner-Lenz Co.....	152.50
Goodyear Rubber Co.....	250.00
Citizens Motor Car Co.....	350.00

Merchandise Inventory, July 31, \$6,181.75.

STATEMENT OF PROFIT AND LOSS

§ 51. **The Statement of Profit and Loss** is a written report of the income, costs, and net profit or loss resulting from the operations of a business during a fiscal period, prepared at the close of the period. This information is obtained from the income and cost accounts in the ledger (Trial Balance) and the inventory of merchandise at the close of the period. The report should show (1) the net sales, (2) the cost of the merchandise sold, (3) the profit made by selling merchandise, (4) the operating cost of the business, and (5) the net profit or loss. The accounts should be arranged in the ledger in the order in which they appear on the Statement of Profit and Loss so that this report can be prepared from the Trial Balance without rearranging the accounts thereon.

The Statement of Profit and Loss may be prepared in account form or in report form (Illustration No. 42), the same as the Balance Sheet. Accountants usually prefer the report form because the deductions in connection with ascertaining the profit on sales and the operating cost of the business can be shown more distinctly in this form.

The income, costs, and beginning inventory of W. A. Gordon, as shown by the accounts in his ledger October 31, page 73, are as follows:

Income:

Sales of merchandise.....	\$2,364.00
Less merchandise returned by customers.....	15.35

Costs:

Inventory, September 1 (beginning).....	500.00
Purchases of merchandise during the period.....	2,635.10
Less merchandise returned to creditors.....	22.60
Expense (operating cost) for the period.....	327.40

The merchandise inventory at the close of the fiscal period, October 31 (Illustration No. 39), is \$1,477.15.

A Statement of Profit and Loss prepared in report form from this information will appear as in Illustration No. 42.

W. A. Gordon
Statement of Profit & Loss, October 31, 19

Returns from Sales:				
Gross Sales			2364	
Deduct Sales Returns			1595	
Net returns from mdse. sold			234865	
Cost of Sales:				
Mdse. Inventory 7/1 500.00				
Add Purchases 263510 3135.10				
Deduct Purchases Returns 2260	311250			
" Mdse. Inventory, 10/31	147715			
Net cost of mdse. sold			169535	
Gross Profit on Sales			71330	
Operating Cost:				
Expense			32740	
Net Profit			38590	
Proof				
W. A. Gordon, Present Capital (Bal. Sheet)			168590	
W. A. Gordon's Net Investment	1300			
Add Net Profit	38590			
	168590	168590		

Illustration No. 42, Statement of Profit and Loss for Model Set, "Report" Form.

EXPLANATION. This illustration shows the Statement of Profit and Loss (income and cost) for W. A. Gordon, prepared in "report" form from the income and cost accounts in the ledger on page 73 (Trial Balance, page 74) and the inventory of merchandise, page 78. The same information may be shown in "account" form in the same manner as in the Balance Sheet, Illustration No. 40. Sales Cr. minus Sales Dr. equals net returns from sales; Purchases Dr. minus Purchases Cr. equals net purchases; net purchases minus inventory at the close of the fiscal period equals cost of merchandise sold; net returns from sales minus cost of merchandise sold equals profit made by selling merchandise; profit made by selling merchandise minus Expense Dr. equals net profit. The "Proof" shown on this statement is explained in § 52.

Exercise No. 32, Statement of Profit and Loss.

Prepare a Statement of Profit and Loss for L. M. Hazen, a retail grocer, from the following information obtained from the accounts in his ledger at the close of the fiscal period, December 31:

Income:

Sales of merchandise.....	\$685.29
Less merchandise returned by customers.....	37.10

Costs:

Inventory, July 1 (beginning).....	801.25
Purchases of merchandise during the period.....	489.50
Less merchandise returned to creditors.....	24.35
Expense (operating cost) for the period.....	78.50

The inventory of merchandise, December 31, is \$862.45.

Exercise No. 33, Statement of Profit and Loss.

Prepare a Statement of Profit and Loss for A. Reagan, a retail jeweler, from the following information obtained from the accounts in his ledger at the close of the fiscal period, March 31:

Income:	
Sales of merchandise.....	\$1,016.68
Less merchandise returned by customers.....	20.10
Costs:	
Inventory, January 1 (beginning).....	1,216.31
Purchases of merchandise during the period.....	458.90
Less merchandise returned to creditors.....	21.11
Expense (operating cost) for the period.....	154.70
The inventory of merchandise, March 31, is \$1,127.36.	

Exercise No. 34, Statement of Profit and Loss.

Prepare a Statement of Profit and Loss for C. H. Sheller, an automobile dealer, from the following information obtained from the accounts in his ledger at the close of the fiscal period, July 31:

Income:	
Sales of merchandise.....	\$4,907.54
Less merchandise returned by customers.....	101.32
Costs:	
Inventory, January 1 (beginning).....	5,000.00
Purchases of merchandise during the period.....	4,506.96
Less merchandise returned to creditors.....	210.11
Expense (operating cost) for the period.....	406.07
The inventory of merchandise, July 31, is \$6,181.75.	

§ 52. Relation Between the Two Reports. The Balance Sheet and Statement of Profit and Loss have been discussed independent of each other because the purpose of the discussion was to explain the nature of each report. However, there is a relation between these two reports because the information is obtained from the accounts which show the results of recording business transactions completed by a business during a fiscal period.

If all the accounts on pages 70, 71, 72 and 73 are checked with those accounts used in preparing the Balance Sheet (Illustration No. 40) and the Statement of Profit and Loss (Illustration No. 42), it will be observed that the only account not appearing on either of the two reports is that with W. A. Gordon, Capital; also that the Balance Sheet shows the capital of W. A. Gordon as a different amount from that shown by his Capital account in the ledger. The reason his Capital account as it appears at the close of the fiscal period is not shown on either report is that his proprietorship has increased through the operations of the business; in this case the increase is \$385.90, the difference between the net investment and the proprietorship at the close of the period, also the difference between the income and cost.

Because of this relation between the two reports, the bookkeeper can prove the correctness of each report before submitting it to the owner of the business. A proof of the reports in Illustrations Nos. 40 and 42 is given below the Statement of Profit and Loss, Illustration No. 42. If desired, this same proof may be shown in connection with the Balance Sheet.

It is customary to show assets, liabilities, and proprietorship on the Balance Sheet, and income, costs, and the net profit on the Statement of Profit and Loss; hence the proof of the two reports may be made separate from the reports or in connection with one of them.

Exercise No. 35, Balance Sheet and Statement of Profit and Loss.

Prepare a Balance Sheet in report form and a Statement of Profit and Loss from the following Trial Balance and inventory of merchandise, May 31:

Cash.....	\$2,192.35	
Novelty Gift Shop.....	764.50	
Wharton & Co.....	810.30	
Timmich Art Co.....		\$ 743.90
Sadler Printing Co.....		956.30
American Paper Mills.....		374.05
Counts Bros.....		78.98
T. B. Stone, Capital.....		2,000.00
Sales.....	10.10	2,399.17
Purchases (Inventory, May 1, \$1,012.75).....	2,621.45	26.30
Expense.....	180.00	
	<u>\$6,578.70</u>	<u>\$6,578.70</u>

Merchandise Inventory, May 31, \$826.80.

Exercise No. 36, Balance Sheet and Statement of Profit and Loss.

Prepare a Balance Sheet in report form and a Statement of Profit and Loss from the following Trial Balance and inventory of merchandise, June 30:

Cash.....	\$2,330.51	
Rogers Seed Market.....	535.65	
Terry Grocery Co.....	1,156.20	
Farmers Exchange.....	269.49	
Evergreen Flower Shop.....	282.90	
A. R. Trimble.....	661.76	
Brookville Nurseries.....		\$2,364.09
Empire Seed Co.....		1,327.84
L. D. R. Howland, Capital.....		2,500.00
Sales.....	32.01	2,595.20
Purchases (Inventory, June 1, \$906.75).....	3,296.95	61.13
Expense.....	282.79	
	<u>\$8,848.26</u>	<u>\$8,848.26</u>

Merchandise Inventory, June 30, \$740.22.

QUESTIONS

1. If Robert Brown pays \$5,000.00 cash for a grocery business on January 1, 1920, and sells it for \$6,500.00 cash on December 31, 1921, does this indicate that the net profit resulting from the operations of the business is \$1,500.00?
2. On June 30, 1921, George A. Clark, who owns and operates a gasoline service station, wishes to borrow \$2,000.00 from the bank and is requested to make a report to the bank of the financial condition of his business. Would the bank require a Balance Sheet or a Statement of Profit and Loss? What information would it require?
3. What is A. L. Day's profit or loss for the year 1922 if his proprietorship at the beginning of the year is \$3,000.00; investments during the year, \$1,000.00; withdrawals during the year, \$500.00; and his proprietorship at the end of the year is \$5,000.00?

4. October 31, 1921, the profit and loss accounts of J. B. Sullivan as shown by the Trial Balance taken on that date are as follows: General Expense, \$857.50; Selling Expense, \$1,252.80; Delivery Expense, \$609.75; Sales, Dr., \$165.60, Cr., \$3,875.92; Purchases, Dr., \$1,888.95, Cr., \$32.50. The merchandise inventory is \$561.12. Has his business been operated at a profit or a loss? State the amount of the profit or loss.
5. L. J. Strong has been offered the grocery business at 762 Main St. He wishes to know that the merchandise inventory submitted to him by the present owner is correct and asks you to verify it. How would you proceed in making the verification? Why is it necessary to know the value of the merchandise in stock before ascertaining the profit or loss for a fiscal period?
6. If you were the bookkeeper for a business engaged in the sale of Victrolas and Victrola records, could you devise a plan whereby a record could be kept of each article purchased and sold?
7. If such a plan were effected, would the number of units of each kind on hand, as shown by the record, be equal to the number of units in stock, as shown by actual count, at the close of the fiscal period?
8. Name some conditions that might cause a discrepancy between the record and the actual stock on hand.
9. If merchandise which cost \$800.00 is inventoried at \$600.00, the present market price, what effect will this have on the net profit for the period?
10. If merchandise is inventoried at present market value when this is less than the cost value, why is it not inventoried at present market value when this is greater than the cost?
11. Can you name a condition under which it would be advisable to use the present market value even though this should be greater than the cost?
12. What information does the owner of a business obtain from the Balance Sheet that he can not obtain from the accounts in the ledger?
13. What information does the owner of a business obtain from the Statement of Profit and Loss which he can not obtain from the accounts in the ledger?
14. Why is "Cash" listed first on the Balance Sheet?
15. How does the owner of a business expect to pay its liabilities?
16. Name two forms in which the Balance Sheet may be prepared.
17. Which is considered the better of the two forms? State reasons for answer.
18. If the Sales account shows a debit of \$1,500.00 and a credit of \$6,000.00, what does this indicate?
19. If the net returns from sales are \$4,565.50 and the expense of operating the business is \$4,375.00, what does this indicate?
20. If the total assets are \$7,682.50 and the total liabilities \$6,552.90, what does this indicate?
21. If the total assets are \$10,500.00 and the total liabilities \$1,500.00, what does this indicate?
22. Would it be practicable for a department store to make a Balance Sheet and Statement of Profit and Loss at the close of each month? Why?
23. Why is it necessary for each business concern in the United States to have a Balance Sheet and a Statement of Profit and Loss prepared at least once each year?
24. What information can the owner obtain from his Balance Sheet which will be of assistance to him in securing credit from other business concerns?
25. Why is it that the difference between the total assets and total liabilities equals the net investment plus the net profit?

Chapter VIII

CLOSING THE LEDGER

The Purpose of this Chapter is to explain and illustrate the process of closing the ledger at the end of a fiscal period. It is customary to close the ledger at the end of a fiscal period in order that the profit or loss resulting from the operations of the business during the period may be credited or debited to the owner's account, and in order that the income and cost accounts may be in balance at the beginning of the next period. The illustrations are applicable to the business of W. A. Gordon in the Model Set, Chapter VI.

§ 53. **Closing the Ledger** is an accounting term applied to the process of transferring the net profit or net loss to the owner's Capital account at the close of a fiscal period. This process requires the closing of all income and cost accounts which appear on the Statement of Profit and Loss. As explained in § 34, the owner's interest in the business consists of the assets invested at the beginning of the business, subsequent investments, and the net profit resulting from the operations of the business, less withdrawals from the investment, and the net loss, if the business has been operated at a loss. The debits and credits to the owner's Capital account will show the investments and withdrawals, but will not show the profit or loss resulting from the operations of the business until the ledger has been closed. For this reason, it is customary for the bookkeeper or accountant to close all accounts shown on the Statement of Profit and Loss at the close of a fiscal period and to debit or credit the owner's Capital account with the loss or profit reported to the owner on the Statement of Profit and Loss.

§ 54. **Accounts Required in Closing the Ledger.** Two accounts in addition to those discussed in the preceding chapters are required in closing the ledger: one to show the value of the merchandise inventory and the other to show the operating cost, special losses, gross profit on sales, special profits, and net profit; the former account is usually given the title "Inventory" or "Merchandise Inventory," and the latter, "Profit and Loss." Other accounts may be required; these will be explained and illustrated as they are needed in connection with the discussion of the adjusting and closing entries.

INVENTORY ACCOUNT

§ 55. **The Purpose of this Account** is to show the value of the merchandise on hand at the close of the fiscal period as indicated by the merchandise inventory. It is necessary to show the value of the inventory in an account in the ledger because it is shown as one of the assets on the Balance Sheet.

Debit the Inventory Account:

¶ 1. At the close of each fiscal period, with the value of the merchandise inventory at the close of the period.

Credit the Inventory Account:

¶ 2. At the beginning or close of each fiscal period, with the value of the merchandise inventory at the close of the preceding fiscal period as indicated by the entry on the debit side.

¶ 3. *The Balance of this Account* shows the value of the merchandise inventory at the close of the fiscal period.

PROFIT AND LOSS ACCOUNT

§ 56. **The Purpose of this Account** is to show the operating cost, special losses, principal income, and special profits for the fiscal period as shown by the Statement of Profit and Loss. No transactions are recorded in this account, the debits and credits being formed by transferring to it the balances of the profit and loss accounts shown on the Statement of Profit and Loss. If desired, the balances of these accounts could be closed direct into the owner's Capital account, but it is considered the better practice to have one account in the ledger which summarizes the facts shown on the Statement of Profit and Loss. This account is opened only at the close of the fiscal period, and when the balances of all the profit and loss accounts have been transferred to it and its balance transferred to the owner's Capital account, it is ruled and remains in balance until the close of the next fiscal period.

Direct profits or losses that occur during the fiscal period should not be credited or debited to the Profit and Loss account, but to a special account, the name of which should indicate the nature of the profit or loss, as "Profit on Sales of Real Estate," "Loss on Stolen Typewriter," "Loss on Delivery Truck," etc.

Debit the Profit and Loss Account:

- ¶ 1. At the close of each fiscal period, with the balance of the Expense account or accounts.
- ¶ 2. At the close of each fiscal period, with the balance of each account which shows a loss.

Credit the Profit and Loss Account:

- ¶ 3. At the close of each fiscal period, with the gross profit on sales.
- ¶ 4. At the close of each fiscal period, with the balance of each account which shows a profit.

¶ 5. *The Balance of the Profit and Loss Account* shows the net profit or net loss for the fiscal period, which is the same as the "Net Profit" or "Net Loss" shown on the Statement of Profit and Loss. This balance is debited or credited to the owner's Capital account.

The student may wonder why the account is not named "Loss and Profit," or "Loss and Gain," because the losses are recorded on the debit side and the gains or profits on the credit side. The title "Profit and Loss" is not arbitrary, and "Loss and Gain" may be used if desired. However, the title "Profit and Loss" is preferred by accountants because the account is a summary of those accounts used in connection with the preparation of the Statement of Profit and Loss.

CLOSING ENTRIES

§ 57. **Entries to Close the Ledger.** Five or more entries are necessary to close the ledger as follows: (1) to record the merchandise inventory at the close of the fiscal period; (2) to close the Purchases account; (3) to close the Sales account; (4) to close the Expense account; (5) to close the Profit and Loss account. A separate entry is required to close each account which shows an income or a cost, hence the number of entries will depend on the number of accounts to be closed. The information for these entries is obtained from the Statement of Profit and Loss, hence this statement is used as a guide in closing the ledger.

The first entry may be regarded as an adjusting entry required to show in the ledger the value of an asset used in the preparation of the Balance Sheet, or as one of the entries necessary in the process of closing the ledger. (§ 46, ¶¶ 4 and 5.)

§ 58. **Methods of Closing the Ledger.** The five or more closing entries are of the same nature as entries for transactions which occur in the regular operations of the business in that each entry requires an account debited and an account credited, the values being the same. These entries may be made direct in the ledger accounts or in the general journal and posted to the ledger in the same manner as transactions. When entries are made in the general journal and posted

to the ledger, the process is known as the "journal entry method" of closing the ledger; when the adjusting entries are made direct in the ledger, the process of closing is referred to as the "direct method" of closing the ledger. Both methods of closing the ledger will be discussed and illustrated to emphasize the fact that the final results are the same no matter which method is used.

The student might conclude from the foregoing discussion that the direct method of closing is used when the transactions are recorded direct in the ledger, and the journal entry method of closing when the transactions are recorded in books of original entry and posted to the ledger. However, this is not true in practice, because many bookkeepers prefer the direct method of closing even though the transactions are recorded in books of original entry and posted. It is quite evident that the journal entry method is the better because it facilitates auditing by providing a record of the closing entries in a book of original entry.

§ 59. Journal Entry Method. When the closing entries are made in the journal, they are recorded in the same manner as those necessary to record transactions. All the entries are made under date of the last day of the fiscal period. The five journal entries required to close the ledger of W. A. Gordon (Model Set) on pages 70-73 are shown in the illustration on page 90. The posting of these closing entries is shown in the illustration on pages 91 and 92; pages 70 and 71 are not repeated because none of the accounts on these two pages are affected by the closing entries. An analysis of the closing entries is given on pages 94, 95 and 96.

§ 60. Direct Method of Closing. When the closing entries are made direct in the ledger and not in the journal, they are recorded in the same manner as transactions (§§ 19, 29 and 35), except it is customary to use red ink in the entry which balances an account. The ledger page is given in each entry for reference. The entries are made under date of the last day of the fiscal period. The process of closing the ledger of W. A. Gordon (Model Set) on pages 70-73 by the direct method is explained and illustrated in Appendix B.

The direct method of closing is illustrated in Appendix B, separate from the journal entry method in this chapter to avoid confusion. The student should compare the two methods because a knowledge of both is necessary to a thorough understanding of each. The final results are the same with either method, but preference is given to the journal entry method in this text because it is preferred and recommended by practicing accountants. The reason for this preference is that the entries in the journal facilitate auditing. Before auditing a ledger which has been closed by the direct method, it is necessary for the auditor to prepare journal entries so that he may know that each entry has been posted.

§ 61. Balancing an Account. When it is desired to rule an account which does not balance and carry the balance down below the ruling on the same page or forward it to a new page, the process is referred to as balancing an account. This is effected by entering the balance on the smaller side under the date on which the account is balanced and ruling the account. It is customary to use red ink for the date, figures and the ruling, but its use is not arbitrary. The balance is brought down with black ink on the opposite side of the account below the ruling or under the title of the account on a new page. The method of balancing the Cash account is shown on page 70 and the proprietor's Capital account on page 91.

§ 62. A Post-Closing Trial Balance is a list of the open accounts in the ledger with the balance set opposite the name of each account, prepared after all the adjusting and closing entries have been made in the accounts. The facts shown on this Trial Balance are the same as those shown on the Balance Sheet and should be checked with it before the Balance Sheet is submitted to the owner for his approval. This Trial Balance is necessary in order that the bookkeeper may know that the accounts in the ledger agree with the facts shown on the Balance Sheet, and that the ledger is in balance before the transactions performed in the next fiscal period are recorded.

October 31, 19

4	Inventory	1477 15	
4	Purchases		1477 15
	Match Inventory at the close of the fiscal period.		
	31		
4	Sales	1635 35	
4	Purchases		1635 35
	To transfer the cost of sales from the Purchases account to the Sales account.		
	31		
4	Sales	713 30	
5	Profit and Loss		713 30
	To transfer the gross profit on sales from the Sales account to the Profit and Loss account.		
	31		
5	Profit and Loss	327 40	
4	Expense		327 40
	To close the Expense account into the Profit and Loss account.		
	31		
5	Profit and Loss	385 90	
3	W. A. Gordon, Capital		385 90
	To transfer the net profit from the Profit and Loss account to the Capital account.		

Illustration No. 43, Page 2 of the General Journal for Model Set.

EXPLANATION. This illustration shows the five entries (§ 57) to close the ledger for W. A. Gordon, Model Set, made in journal form (§ 59). The information is obtained from the Statement of Profit and Loss, Illustration No. 42. These entries are analyzed and further explained on pages 94, 95 and 96.

King & King City

¹⁹ Sept. 13	C3	✓ 100	¹⁹ Sept. 3	P1	✓ 136.95
20	C3	✓ 36.95	29 10 days	P1	✓ 174.75
Oct. 9	C3	✓ 174.75	Oct. 20 30 "	P1	127.65
			28 30 " 269.02	P1	141.37
					269.02

Lake View Creamery

Dayton

¹⁹ Oct. 7	C3	30	¹⁹ Sept. 17 20 days	P1	✓ 30
			Oct. 15 20 " 48.00	P1	48

Dick, Mc Millan & Co

Springfield

¹⁹ Oct. 16	C5	381.78	¹⁹ Oct. 1 15 days	P1	381.78
			24 15 " 117.90	P1	117.90

Dawson Bros. & Co.

Lebanon

			¹⁹ Oct. 27 30 days	P1	307.55
--	--	--	-------------------------------	----	--------

Brown Bros.

City

¹⁹ Oct. 16	Prot forwd	2	561.70	¹⁹ Oct. 16	Prot forwd	2	893.60
18	C5		98				
20	Error	J1	669.70				

W. A. Gordon, Capital

¹⁹ Oct.	1	C3	200	¹⁹ Sept	1	C2	1000
	31	✓			1	J1	1300 00
				Oct	31	Profit & Loss	J2
			1885 90				385 90
							1885 90
				Nov	1	Present Capital	✓ 1685 90

Illustration No. 44, Page 3 of the Ledger for Model Set.

EXPLANATION. This page is the same as page 72 except the Capital account has been credited with the net profit and is balanced as explained on page 93. Pages 70 and 71 are not repeated here because they are not affected by the closing entries.

CLOSING ENTRIES POSTED

Sales

¹⁹				¹⁹			
Sept. 19		Dr	910	Sept 6		Cr	32
Oct. 6		Cr	250	13		Cr	40
24		Dr	375	20		Cr	65
31	Cost of Sales	Dr	1635.35	27		Cr	4450
31	Profit on Sales	Dr	2713.30	30	72451	Dr	55211
				Oct. 4		Cr	8765
				11		Cr	10980
				18		Cr	12950
				27		Cr	13645
				31		Cr	8719
				31		Dr	107980
							236400
			2364				2364

Inventory

¹⁰ Oct. 31 Balance Inv. Dr 147715

Purchases

¹⁹				¹⁹			
Sept 1	Inventory	Dr	500	Sept 23		Dr	1260
30	1779.50	Dr	1792.10	Oct. 20		Dr	1260
Oct. 2	Freight & Drayage	Cr	225	31	Inventory	Dr	147715
		Dr	1340.75	31	Cost of Sales	Dr	163535
			313510				313510

Expense

¹⁹				¹⁹			
Sept. 4		Cr	25	Oct. 21	Stamps	Cr	50
30	165.00	Cr	140	27	"	Dr	160
Oct. 13		Cr	1850	31	Profit & Loss	Dr	32740
17		Cr	5				
31	327.40	Cr	140				
			32850				32850

Illustration No. 45, Page 4 of the Ledger for Model Set.

EXPLANATION. This page is the same as page 73 except the journal entries on page 90 have been posted and the accounts "in balance" have been footed and ruled. Pages 72 and 73 would appear the same as pages 91 and 92 if the closing entries had been posted to them.

Profit and Loss

19	Oct. 31	Expense Dr	327 40	19	Oct. 31	Profit on Sales Cr	713 30
	31	W. A. Gordon, Cap Dr	385 90				
			713 30				713 30

Illustration No. 46, Profit and Loss Account, Model Set

The above account would be opened on page 5 of the ledger for the Model Set, the first four pages being full as shown on pages 70, 71, 91 and 92. This account is the result of closing the Purchases, Sales and Expense accounts; the balance has been transferred to W. A. Gordon, Capital, as shown in the illustration at the bottom of page 91.

BALANCING THE CAPITAL ACCOUNT

If desired, the owner's Capital account may be ruled and his present capital (proprietary interest in the business) carried down under date of the beginning of the next fiscal period. If this plan is followed, the present capital is entered on the debit side with red ink, and the balance carried down on the credit side under date of the beginning of the next fiscal period as in the illustration at the bottom of page 91.

POST-CLOSING TRIAL BALANCE

W. A. Gordon
Post-Closing Trial Balance, October 31, 19

1	Cash	291 61	
1-2	Accounts Receivable	883 51	
3	Accounts Payable		966 37
3	W. A. Gordon, Capital		1685 90
4	Inventory	1477 15	
		2652 27	2652 27
		2652 27	2652 27

Illustration No. 47, Post-Closing Trial Balance for Model Set

This Trial Balance is made from the ledger accounts on pages 70, 71, 91 and 92; the Accounts Receivable and Accounts Payable are each shown in one amount because these were not affected by the closing entries. The accounts are arranged in the same order as the accounts appear in the ledger. The facts on this Trial Balance are the same as those shown by the Balance Sheet. The post-closing Trial Balance proves that the ledger is in balance after the closing entries are posted.

Combined Journal Entry

If desired, the accounts used in making the Statement of Profit and Loss may be closed with their balances by a combined journal entry. The journal entry at the right shows this method of closing the accounts which were closed by the five separate entries on page 90.

This form of closing is not recommended by accountants because the Profit and Loss account is omitted. It is desirable to have in the ledger a summary of all the accounts showing a profit or loss such as that provided by the Profit and Loss account, because this information is very valuable for statistical purposes. The student will understand this better after he is more familiar with the accounting procedure developed later in the course.

	Inventory	31	1477 15	
	Sales		2348 65	
	Purchases			3112 50
	Expense			327 40
	W. A. Gordon, Capital			385 90

ANALYSIS OF CLOSING ENTRIES ON PAGE 90

The First Entry is that required to record the merchandise inventory at the close of the fiscal period. This entry is necessary because the cost of sales is ascertained on the Statement of Profit and Loss by subtracting the inventory at the close of the fiscal period from the net purchases. The Inventory account is debited to record the asset; the Purchases account is credited for the inventory so that when it is posted, the subtraction will be indicated. It is customary to write "Mdse. Inv." in the explanation column of the Inventory account, and "Inventory" in the explanation column of the Purchases account.

Purchases			
19	Oct 31	313510	2260
October 31, 19			
4	Inventory	147715	
4	Purchases		147715
Mdse. Inventory at the close of the fiscal period			
Inventory			
19	Oct 31	Mdse. Inv. fr 147715	
Purchases			
19	Oct 31	313510	2260
	31	Inventory fr	147715

The illustration at the right shows the Purchases account at the close of the fiscal period, the journal entry to record the inventory at the close of the period, and the Inventory and Purchases accounts as they appear after the journal entry has been posted.

The Second Entry is that required to transfer the balance of the Purchases account to the Sales account. This entry is necessary because the profit on sales is ascertained on the Statement

Sales			
19	Oct 31	1535	2364
Purchases			
19	Oct 31	313510	2260
	31	Inventory fr	147715
October 31, 19			
4	Sales	163535	
4	Purchases		163535
To transfer the cost of sales from the Purchases account to the Sales account.			
Sales			
19	Oct 31	1535	2364
	31	Cost of Sales fr	163535
Purchases			
19	Oct 31	313510	2260
	31	Inventory fr	147715
	31	Cost of Sales fr	163535
		313510	313510

The illustration at the right shows the Sales and Purchases accounts before the second entry has been posted, the journal entry to close the Purchases account into the Sales account, and the Sales and Purchases accounts after this journal entry has been posted. The balance of the Sales account now shows the net profit made by selling merchandise because the credit side shows sales and the debit side cost.

The Third Entry is that required to transfer the balance of the Sales account to the Profit and Loss account. This entry is necessary because it is customary to show in the ledger a summary of the facts shown by the Statement of Profit and Loss. Sales is debited because this account shows the profit on sales; the Profit and Loss account is credited because this account is credited for all income. When this entry is posted, the Sales account will balance and be ruled, and the Profit and Loss account will show the profit on sales. It is customary to write "Profit on Sales" in the explanation column of each of these accounts.

The illustration at the right shows the Sales account before the third entry has been posted, the journal entry to close the Sales account into the Profit and Loss account, and the Sales and Profit and Loss accounts after this journal entry has been posted. The profits and losses could be closed direct into the proprietor's account instead of Profit and Loss as explained in § 56.

Sales						
19	Oct. 31		1535	19	Oct. 31	2364
	31	Cost of Sales fr	163535			
October 31, 19						
4	Sales			71330		
5	Profit and Loss				71330	
To transfer the gross profit on sales from the Sales account to the Profit and Loss account						
Sales						
19	Oct. 31		1535	19	Oct. 31	2364
	31	Cost of Sales fr	163535			
	31	Profit on Sales fr	71330			
			2364			2364
Profit and Loss						
				19	Oct. 31	Profit on Sales fr 71330

The Fourth Entry is that required to transfer the balance of the Expense account to the Profit and Loss account. This entry is necessary because the net profit is ascertained on the Statement of Profit and Loss by subtracting the expense from the profit on sales. The Profit and Loss account is debited so that when it is posted, the subtraction will be indicated; the Expense account is credited because this account shows the expense for the period. When this entry is posted, the Expense account will balance and be ruled, and the balance of the Profit and Loss account will show the net profit. It is customary to write "Profit and Loss" in the explanation column of the Expense account, and "Expense" in the explanation column of the Profit and Loss account.

The illustration at the right shows the Profit and Loss and the Expense accounts before the fourth entry has been posted, the journal entry to close the Expense account into the Profit and Loss account, and the Profit and Loss and the Expense accounts after this entry has been posted.

Profit and Loss							
				19	Oct. 31	Profit on Sales fr	71330
Expense							
19	Oct. 31		32850	19	Oct. 31		110
October 31, 19							
5	Profit and Loss			32740			
4	Expense					32740	
To close the Expense account into the Profit and Loss account							
Profit and Loss							
19	Oct. 31	Expense fr	32740	19	Oct. 31	Profit on Sales fr	71330
Expense							
19	Oct. 31		32850	19	Oct. 31		110
					31	Profit and Loss fr	32740
			32850				32850

The Fifth Entry is that required to transfer the balance of the Profit and Loss account to the proprietor's Capital account. This entry is necessary because the purpose of closing the ledger is to transfer the net profit to the proprietor's account. The Profit and Loss account is debited because this account shows the net profit; the proprietor's Capital account is credited because this profit is equivalent to an additional investment. When this entry is posted, the Profit and Loss account will balance and be ruled, and the proprietor's Capital account will show his present proprietorship as shown by the Balance Sheet. It is customary to write the name of the proprietor's Capital account in the explanation column of the Profit and Loss account, and "Profit and Loss" in the explanation column of the proprietor's account.

The illustration at the right shows the Profit and Loss account and the account with W. A. Gordon, Capital, before the fifth entry has been posted, the journal entry to close the Profit and Loss account, and the Profit and Loss and W. A. Gordon Capital accounts after this entry has been posted.

If desired, the proprietor's Capital account may be balanced and ruled as explained on page 93 and illustrated at the bottom of page 91; this plan is usually followed.

Closing the Inventory Account

If desired, the inventory of merchandise at the close of the fiscal period may be transferred to the Purchases account at the beginning of the next fiscal period. If it is not transferred to the Purchases account at the beginning of the period, then it will be necessary to transfer it to this account at the close of the period because the cost of merchandise on hand at the beginning of the period must be added to the cost of merchandise purchased during the period to ascertain the total cost of all merchandise. The form of entry for transferring the merchandise inventory to the Purchases account is the same whether it is made at the beginning or the close of the period. The entry necessary to transfer the inventory to the Purchases account for W. A. Gordon, Model Set, is shown at the right. The date, November 1, at the top, indicates that this entry was made at the beginning of the next fiscal period. After this is posted, the Inventory account will be in balance, and the value of the inventory will appear on the debit side of the Purchases account under date of November 1; it is customary to write "Inventory" in the explanation column of the ledger.

Nov. 1, 192			
Purchases		1477 15	
Inventory			1477 15
To close the Inventory account at beginning of fiscal period			

Exercise No. 37, Closing the Ledger, Journal Entry Method.

Prepare a Balance Sheet and Statement of Profit and Loss, each in report form, from the Trial Balance of C. U. Steele, resulting from recording the trans-

actions in Exercises Nos. 17, 20 and 23 (merchandise inventory, \$6,127.50). Close the ledger by the journal entry method and take a post-closing Trial Balance.

The student was instructed to retain the Trial Balance and ledger sheets at the conclusion of Exercise No. 23.

Exercise No. 38, Closing the Ledger, Direct Method.

Prepare a Balance Sheet in account form and a Statement of Profit and Loss in report form from the Trial Balance of Donald D. Sells, resulting from recording the transactions in Exercise No. 24 (merchandise inventory, \$762.78). Close the ledger by the direct method, and take a post-closing Trial Balance.

The student was instructed to retain the Trial Balance and ledger at the conclusion of Exercise No. 24.

Exercise No. 39, Closing the Ledger, Journal Entry Method.

Prepare a Balance Sheet in account form and a Statement of Profit and Loss in report form from the Trial Balance of H. A. Popp, resulting from recording the transactions in Exercise No. 25 (merchandise inventory, \$396.54). Close the ledger by the journal entry method, and take a post-closing Trial Balance.

The student was instructed to retain the Trial Balance and ledger at the conclusion of Exercise No. 25.

Exercise No. 40, Closing the Ledger, Combined Journal Entry.

Prepare a Balance Sheet and Statement of Profit and Loss, each in report form, from the Trial Balance of J. N. Fulton, resulting from recording the transactions in Exercise No. 26. Close the ledger by a combined journal entry as explained at the bottom of page 93, and take a post-closing Trial Balance.

The student was instructed to retain the Trial Balance and ledger at the conclusion of Exercise No. 26.

Summary of Chapters VI, VII and VIII. The Model Set in Chapter VI illustrates the method of recording transactions, posting and taking a Trial Balance. Illustrations are provided so that the student may see the connection between the transactions and the Trial Balance at the end of the month.

The Balance Sheet is a report showing the assets, liabilities and proprietorship. The Statement of Profit and Loss is a report showing a list of the income, costs and net profit. The proprietorship as shown by the Balance Sheet less the net profit or plus the net loss as shown by the Statement of Profit and Loss equals the proprietorship at the beginning of the fiscal period.

"Closing the ledger" is a term used to describe the method of transferring the profit or loss to the owner's Capital account. Certain entries are required to make this transfer. These entries may be made direct in the ledger in the same manner as transactions may be recorded direct in the ledger, or they may be recorded in the general journal and posted to the ledger. The accounts to be closed are those used in connection with the Statement of Profit and Loss; they include cost and income accounts. The Profit and Loss account is used in the process of closing; when all accounts have been closed, the balance of the Profit and Loss account is transferred to the owner's Capital account. The post-closing Trial Balance proves that the equality of debits and credits has been maintained throughout the closing process.

QUESTIONS

1. Explain the meaning of the term "closing the ledger."
2. Is it necessary to close the ledger? Why?
3. When is the ledger closed?
4. Name the two methods of closing the ledger.

5. What is the purpose of the Profit and Loss account?
6. Why is the account not named "Loss and Gain" since losses appear on the debit side and gains on the credit side?
7. What is the purpose of the post-closing Trial Balance?
8. Why are accounts ruled when the two sides are equal? How?
9. Why is it necessary to open an account with Inventory at the close of the fiscal period?
10. Name the five entries usually required in connection with closing the ledger.
11. If the business had made a profit other than that shown by the Purchases, Sales and Inventory accounts, would a separate entry be required to close this profit into the Profit and Loss account? If the profit is credited to a Profit on Sales of Real Estate account, name the accounts debited and credited in the closing entry.
12. A business owned a horse which it used in connection with the delivery of its merchandise; this horse died and the loss was debited to a "Loss on Dead Horse" account. Would a special entry be required to close the balance of this account into the Profit and Loss account? Name the accounts debited and credited in this closing entry.
13. After the ledger is closed, what accounts remain open?
14. What relation does the credit to the owner's Capital account after it is closed have to the assets and liabilities shown by the accounts that remain open after the ledger is closed?
15. Describe the process of closing the ledger by the direct method.
16. Describe the process of closing the ledger by the journal entry method.
17. Which method of closing the ledger is considered the better? Why?
18. Are the debits and credits equal in each closing entry? Why is this necessary?
19. If an account is closed with an incorrect amount, what effect will this have on the Trial Balance of the first month of the next fiscal period?
20. Mention an error in the closing of the ledger which would effect future Trial Balances.
21. Why is the Cash account balanced at the close of the fiscal period?
22. Describe the entry necessary to close the balance of the Inventory account into the Purchases account. When should this entry be made?
23. Is it necessary to balance each customer's account and each creditor's account in the ledger at the close of the fiscal period? Give reasons for your answer.
24. Is it necessary to balance the Capital account after the net profit or net loss for the period has been credited or debited to it?
25. Why is red ink used for closing the Capital account even though the other accounts may be closed by journal entries?

Chapter IX

BUSINESS FORMS AND VOUCHERS

The Purpose of this and the two Succeeding Chapters is to explain and illustrate those business forms used most frequently in connection with the performance of business transactions. A printed statement of the business transaction which has been completed is sufficient for determining the debits and credits in connection with the transaction, but a knowledge of business forms is necessary because they represent transactions to the bookkeeper.

§ 63. **A Business Form or Voucher** is a written statement concerning a business transaction to be performed or one that has been completed. The two terms are used with the same meaning, but the term "voucher" usually refers to a business form which is an evidence of a cash payment. Business forms prepared for a specific purpose are usually printed with blank space for the information desired in connection with a transaction. These forms are referred to by name, as purchase order, invoice, purchases invoice, sales invoice, bill, sales ticket, receipt, deposit ticket, check, note, sight draft, time draft, trade acceptance, etc. The various business forms will be explained and illustrated as they are needed in the recording of transactions in the practice sets. In this chapter, those which relate to the purchases and sales of merchandise are explained and illustrated.

§ 64. **Use of Business Forms.** A business form serves two purposes: (1) it provides written information in regard to a business transaction, thus avoiding the misunderstanding which might result from a verbal contract; (2) it provides information for the basis of the entry made by the bookkeeper when he records the transaction. From the standpoint of the bookkeeper, business forms are very important because they not only provide the information which he needs in recording transactions, but also support his records when these are verified by the auditor.

In the preceding chapters, the transactions have been recorded from a printed statement of the facts; in practice, the bookkeeper would make his record from business forms because no printed record of the transactions would be available. The usual process is (a) transactions performed as evidenced by business forms; (b) a record of these transactions in books of original entry; (c) the accounts in the ledger resulting from posting; (d) the Trial Balance at the end of the month to prove the equality of the debits and credits; (e) a report of the assets and liabilities, and profits and losses to the owner at the close of the fiscal period.

§ 65. **A Purchase Order**, or "order" as it is sometimes termed, is the written authority from the purchaser, authorizing the seller to make shipment of the merchandise described therein. The printed form provided for a purchase order should be made in duplicate, the original and duplicate printed on different-colored paper, and each original and duplicate numbered the same, the numbers being arranged consecutively. When the order is made, the same facts are shown on the duplicate as on the original and the duplicate is filed for reference. When this plan is followed, the purchaser has available all the information given in each order and can check the list of the merchandise received with this to determine whether the order has been filled as directed.

Merchandise may be ordered by letter, by telegraph, or by telephone; when the order is placed by letter, a description of the merchandise desired is given on the order blank enclosed with the letter, and not in the letter; when the merchandise is ordered by telegraph or by telephone, an order, accompanied by the copy of the telegram or containing the date of the telephone message is mailed to the seller confirming the telegram or the telephone call. Unfilled orders should be filed numerically, and, when they have been filled, they should be placed in another file in the same order. Illustration No. 48 shows one form of purchase order; others will be discussed and illustrated later.

SOUTH-WESTERN PUBLISHING CO. Publishers of Commercial Text Books 309 WEST THIRD ST., CINCINNATI, OHIO		<u>MARK ORDER NO</u> <u>ON ALL INVOICES</u>
Yawman & Erbe Manufacturing Co. Rochester, N. Y.		Order No. 3983 Cincinnati April 21 19. 21 Terms 30 days net
Ship via <u>Freight - prepaid</u>		
MARK ORDER NO. ON OUTSIDE OF ALL PACKAGES AND CASES		

QUANTITY	DESCRIPTION	PRICE	PER
2	#106 Bases)	10.00	ea.
4	#59 Sections)	30.00	"
2	#60 " (110 finish	31.00	"
2	#22 " (	33.50	"



South Western Publishing Co.
 By L. M. W.

Deliver no goods without a written Order on this form.

Illustration No. 48, Purchase Order.

EXPLANATION. This illustration shows a purchase order issued by the South-Western Publishing Co., Cincinnati, O., for filing devices manufactured by the Yawman & Erbe Mfg. Co., Rochester, N. Y. The order is issued in triplicate; the original is mailed to the Yawman & Erbe Mfg. Co., one copy is filed in the office, and the other is sent to the receiving department. The instructions in the upper right hand corner are for information in checking the invoice; the instructions in regard to marking the cases are for the receiving department.

§ 66. **An Invoice** is a written list of merchandise purchased or sold. The purchaser usually refers to the invoice he receives as a "purchase invoice," and the seller to one which he issues as a "sales invoice." If the printed form on which the invoice is prepared is made in duplicate, the seller can, by the use of carbon paper, retain a copy of the list of items sold each customer; the method of doing this will be explained later. An invoice is authorized by a purchase order and should contain all the information given in the order; this includes the date and number of the purchase order, method of making shipment, detailed description of the merchandise shipped, prices and extensions of each item, and the total. In addition to this information, the invoice should show the date the merchandise was shipped, which should be the date of the invoice; the terms which the seller allows; the name and address of the seller; and any other information which the seller may wish to include. If all the merchandise mentioned in the purchase order is not shipped, an explanation of this omission should be given on the invoice, because the purchaser, in checking the information on the invoice with his order, will want to know the reason it has not been filled as specified. Illustrations Nos. 49 and 50 show two forms of invoices; other forms will be explained and illustrated later.

Invoice—

YAWMAN AND ERBE MFG. CO.Wood and Steel
Filing DevicesOffice Systems
and Equipment

MAIN OFFICE AND FACTORIES, ROCHESTER, N. Y.

Sold To

South Western Publishing Co.
309 West Third St.
Cincinnati, Ohio.Date 5/24/21.
Your Order No. 3983
Rochester No. 234873
Branch No.
Shipped Via N Y C
Territory 66

TERMS:—Thirty Days Net—Payable in New York Exchange—Pay No Money to Representatives.

Quantity	Description	Price	Amount	Total
2✓	106 Bases	10 00✓ ea	30 00✓	
4✓	59 Sections	30 00✓ "	120 00✓	
2✓	60 "	31 00✓ "	62 00✓	
2✓	22 "	33 50✓ "	67 00✓	
	110 finish			\$269 00✓

Illustration No. 49, Purchase Invoice.

EXPLANATION. This invoice is in acknowledgment of the purchase order, Illustration No. 48. The order has been filled complete. Space is provided on the invoice for information relative to the date, the buyer's order number, the seller's number, the branch number, method of shipment, and territory. The "66" after "Territory" indicates that there are a number of territories and that the merchandise mentioned in this invoice was shipped into territory No. 66. The check marks indicate that the merchandise has been received as ordered, that the prices agree with the order, and that the extensions and the total have been verified.

W. H. GOODWIN

DEALER IN

Fancy Groceries, Provisions and Country Produce.

Cincinnati Jan 4 19

Sold to A. R. Jennings

Terms, account

105 Main St., City.

QUANTITY	ITEMS	PRICE	DOLLARS	CTS.	TOTAL
3	bus. George Washington Coffee	.75	2	25	
1	bbl. White Lily Flour	10.00	10	00	
1	bag Mich. Potatoes (100 lbs)	2.50	2	50	
1	doz Oranges	.50		50	15 25

Illustration No. 50, Sales Invoice.

EXPLANATION. The information on this sales invoice is practically the same as that on the purchase invoice except it is rendered by a retail merchant and he does not need the information shown on the purchase invoice.

§ 67. A **Sales Ticket** is a form of sales invoice used by some retail merchants. Sales tickets are usually printed in duplicate and bound in a book. Each clerk is provided with a book, and, when he makes a sale, either on account or for cash, he makes a list of the merchandise sold on the sales ticket. By the use of carbon paper, the two copies can be made at one time; one copy is sent to the office for the information of the bookkeeper and the other to the wrapping department to be wrapped with the merchandise sold; additional copies may be made at the same time if they are needed in connection with the accounting records. There are many methods of arranging sales tickets, but no attempt will be made here to discuss all of these. The method described will enable the student to understand the meaning and purpose of the sales ticket and its use in connection with the sales invoice. Illustration No. 51 shows one form of sales ticket. The student is advised to inquire from local merchants for other forms and their use in the sales, packing, and accounting departments.

EXPLANATION. The information on this sales ticket shows the date, the name of the one to whom the sale was made, his address, the number of the sale, the clerk, the items sold, amount of each, and total amount. The purchaser receives a copy of this with the merchandise so that he may know that the proper merchandise has been delivered.

SALES TICKET			
W. H. GOODWIN			
Date <u>Jan. 4</u> 19			
Sold to <u>A. R. Jennings</u>			
Address <u>105 Main St. City</u>			
Sale No. <u>1</u>		Sold by <u>L. E. Cole</u>	
No.	ARTICLE	PRICE	AMOUNT
3	bus. G. W. Coffee	75	2.25
1	bbbl. W. L. Flour	10.00	10.00
1	bag Mich. Potatoes	2.50	2.50
1	doz. Oranges	.50	.50
			15.25

Illustration No. 51, Sales Ticket.

§ 68. A **Bill** is a business form given as evidence of service rendered. The terms "bill" and "invoice" are sometimes used interchangeably, but the general understanding is that an invoice is a list of merchandise or material purchased

LAST DAY OF PAYMENT OCTOBER 10th		CINCINNATI, O. OCTOBER 1, 1921	
THE CINCINNATI & SUBURBAN BELL TELEPHONE CO. Telephone Building, 225 E. Fourth Street, Cincinnati, O. See back of bill for rules and regulations regarding the billing and collection of accounts.			
JAS. W. BAKER DELAWARE & KASOTA, AVON., CINTI., O.		A3874	JAS. W. BAKER DELAWARE & KASOTA, AVON., CINTI., O.
EXCHANGE SERVICE AS PER CONTRACT, FOR OCTOBER, 1921		4.60	OCTOBER, 1921
ADDITIONAL LOCAL MESSAGES TO SEPTEMBER 30, 1921		70	
TOLL SERVICE		70	
BALANCE DUE ON BILL PREVIOUSLY RENDERED			
Office closed on Legal Holidays and at 1 P. M. on Saturdays during June, July, Aug. and Sept.			TOTAL
			6.90

Illustration No. 52, A Bill.

EXPLANATION. This bill is rendered for telephone service as stated therein. In addition to regular service, there is a charge for toll or long-distance calls; this charge is usually supported by a separate bill giving details. The notice in the upper left-hand corner is for the convenience of the bookkeeper of the telephone company so that, when a remittance is received, he may know whether the subscriber desires the bill to be receipted and returned.

or sold, and a bill is a statement of service rendered. Bills are rendered by attorneys, physicians, gas, electric, and telephone companies, and other individuals or concerns which render service for which payment is to be made after the service is rendered. Illustration No. 52 shows one form of bill. The arrangement is usually the same as that of an invoice, but this depends largely on the purpose for which the bill is rendered.

§ 69. A Receipt is a written acknowledgment from the receiver to the giver, of money or other property received in payment for some form of indebtedness. Receipts may be the result of transactions in connection with the purchase or sale of merchandise or transactions in which service has been rendered. A receipt may be written on a receipt form as in Illustration No. 53; it may be a

No. _____	No. _____ January 9, 191 _____
Date Jan. 9, 191 _____	Received of A R Jennings _____
To A R Jennings _____	For _____ % Dollars
For Account _____	On account _____
Amount \$ 10.00 _____	\$ 10.00 _____ W H Goodwin _____
	By Student _____

Illustration No. 53, Receipt Book with Stub.

EXPLANATION. The illustration shows the receipt book and stub. The information on the stub is arranged in the same order as it is on the receipt for the convenience of the bookkeeper. The purpose of a receipt should always be stated on the stub for the information of the bookkeeper when he records the transaction (§ 27, ¶ 5), and on the receipt for the information of the holder.

Form 243. 10M-10-18		
THE PHILIP CAREY COMPANY		
LOCKLAND, CINCINNATI, OHIO. DEC. 31, 192		
ORDER No. D-058676	REQ. No.	SHIPPED FROM
CAR No.	FREIGHT	INVOICE No.
F. O. B. DEL'D	VIA OUR TRUCK	SALESMAN
To H. C. HAZEN CONTRACTING CO., 2070 READING ROAD, CINCINNATI, O.		 WORKS: LOCKLAND, OHIO PLYMOUTH MEETING, PA. ALL REMITTANCES MUST BE MADE PAYABLE TO ORDER OF THE COMPANY
Terms, Cash. Subject to sight draft in 30 days without further notice. Interest charged on past DUE ACCOUNTS.		
3-PLY GRAY WALLBOARD IN BULD. 105 SHEETS 48" X 6' 2520 SQ. FT. SHIPPED TO H. C. HAZEN CONTRACTING CO., 2070 READING ROAD, CINCINNATI, O.		35.00 M ✓ 88.20 ✓

Illustration No. 54, Receipted Invoice.

EXPLANATION. The blue stamp indicates payment. When an invoice is receipted this is sufficient evidence of payment, hence a receipt in receipt form is not necessary.

receipted invoice or bill as in Illustrations Nos. 54 and 55; or it may be prepared in any form which suits the convenience of the giver. Each business concern which issues receipts should have these bound in a book with stubs as in Illustration No. 53, as this provides a permanent record of all receipts issued. When issuing a receipt similar to the illustration, the bookkeeper should always fill out the stub first because this is his record of the receipt.

SEPT. 10, 1921		SEPT. 10, 1921		
NOTICE No Discount Allowed on this Bill after SEPT. 15th	3	J. W. BAKER	JWB	
	13	3261 DELAWARE AVE.	172-21	
TO THE UNION GAS AND ELECTRIC CO. DR. S. W. COR. FOURTH AND PLUM STS., CINCINNATI, O.		3-13 2.10		
For Natural Gas Consumed:				
SEP 1	8870 00			2.40
AUG 1	8810 00			<u>.30</u>
Amount Consumed 60 00				2 10
At the rate of 40c per M cubic feet, subject to discount of 5c per M, if paid on or before Last Day of Discount. Minimum Bill 35c net per month.				
Please Bring this Bill to be Receipted. POSTAGE must be enclosed for Return of Receipt. OFFICE HOURS: 8 A.M. to 5 P.M.. SATURDAY to 12 M Closed on Legal Holidays.				

Illustration No. 55, Receipted Bill.

EXPLANATION. The illustration shows a receipted bill from the gas company. The cashier of the gas company would remove the right-hand end at the line and retain this for his record. Both ends are illustrated to show that the stub may be attached to the receipt and not bound in a book.

§ 70. Filing Business Forms and Vouchers. All business forms and vouchers should be properly filed because they are evidence of transactions either completed or to be completed, and, unless properly filed, might not be available when needed. The bookkeeper should pay particular attention to the filing of business forms and vouchers which support his records so that he may have satisfactory evidence of their correctness. No attempt will be made here to discuss the method of filing business forms and vouchers, the purpose of the discussion being to impress on the student of bookkeeping the importance of filing those business forms and vouchers which support the bookkeeping records.

Exercise No. 41, Sales Tickets.

Prepare sales tickets for the sales made July 5, 8, 13, 16, 19, 22, and 26 in Exercise No. 14 on page 40. You may use the sales tickets of a local grocer, blank sales tickets, or forms ruled similar to Illustration No. 51.

Exercise No. 42, Sales Invoices.

Prepare sales invoices for the ten sales in Exercise No. 19, page 49. You may use invoices of a local grocer, blank invoices for sale by stationery stores, or forms ruled similar to Illustration No. 50.

Exercise No. 43, Purchase Order, Sales Invoice, and Receipt.

As purchasing agent for the Johnson Paint Co., Chicago, place an order, under date of May 16, with the Globe-Wernicke Co., Cincinnati, manufacturers of office furniture, for the following: 3 No. 503 Filing Cases at \$12.00; 6 No. 67 Sections at \$32.00; 3 No. 69 Sections at \$35.00; 12 No. 37 Sections at \$36.25. Terms, net 30 days; shipment to be made by Pennsylvania freight.

As bill clerk for the Globe-Wernicke Co., render an invoice for this material under date of May 19.

As receiving cashier for the Globe-Wernicke Co., prepare a receipt for the remittance received from the Johnson Paint Co. in payment for this invoice.

If you can obtain an order blank and an invoice from some local business concerns, these may be used instead of the names given. If you do not have blank forms, rule writing paper similar to Illustrations Nos. 48, 49, and 53.

QUESTIONS

1. What business form supports the record of each transaction in the purchases journal?
2. What business form supports the record of each transaction in the sales journal?
3. Explain the check marks in Illustration No. 49.
4. Explain the meaning of the words "30 days net" after "Terms" in Illustration No. 48.
5. Explain the meaning of the terms "Date," "Your Order No.," "Rochester No.," "Branch No.," "Shipped via," and "Territory," and the information given on a line with these in Illustration No. 49.
6. What is the purpose of indicating the territory number?
7. Explain "Mark order number on outside of all packages and cases" in Illustration No. 48.
8. Explain "Deliver no goods without a written order on this form" in Illustration No. 48.
9. When is the due date of the invoice in Illustration No. 49?
10. Why should a purchase order be made in duplicate?
11. Why should duplicate purchase orders be filed?
12. Can you suggest a method of filing duplicate orders so that the information will be readily available when needed?
13. Why should a sales invoice be made in duplicate?
14. Could the duplicate sales invoices be used as a sales journal?
15. Suggest a means of filing the duplicate sales invoices if they are to be used as a sales journal.
16. Distinguish between a purchases invoice and a sales invoice.
17. Robert Crouch made a number of purchases on account from a local grocer during the month of June. July 1 he received a written statement from the merchant, showing that he owed the merchant \$28.60. How may Mr. Crouch know that this amount is correct without asking the merchant for additional information?
18. If a merchant sends a sales ticket with each sale on account, is it necessary for him to render a sales invoice?
19. If you purchase a pair of shoes from a local merchant and wish to return them, what evidence will he require in addition to the shoes? Why?

20. Could the sales tickets be used by the merchant as the account with a customer?
21. Distinguish between a bill and an invoice.
22. If a merchant has a purchase invoice receipted when he pays it, is a receipt in receipt form necessary?
23. If a receipt for \$21.50 is issued to a customer for this amount of cash received from him on account, and the entry on the stub shows only \$21.00, how will the bookkeeper detect the error?
24. If a receipt is issued and the bookkeeper fails to record it on the stub, state two ways by which he may ascertain the amount of the receipt.
25. If the bookkeeper issues receipts for all money received, what business forms support his record of the transactions on the receipts side of the cash book?

Chapter X

BUSINESS FORMS AND VOUCHERS—Continued

§ 71. A **Bank** is a business organized for the purpose of making a profit through dealing in money and securities. The capital investment, together with the money deposited by customers, is loaned to those engaged in other business enterprises. The principal income is the interest earned by these loans. Banks are of great value to the community in which they are located because they provide a place for the safe-keeping of money and securities, and make possible the "deposit and check" method of making payments, thus eliminating, to a great extent, the use of money as a medium of exchange.

§ 72. **Opening an Account with the Bank.** An account is opened with a bank by depositing currency or cash items; the receiving teller will not accept the first deposit from a depositor until it has been approved by the cashier or president of the bank. It is necessary for the officials of the bank to become acquainted with each depositor so as to avoid the possibility of the use of the bank account for a fraudulent purpose. The receiving teller gives the depositor a receipt for the amount of his deposit; this receipt is in the form of an entry in the pass book (§ 75), showing the date of the deposit and the amount. The depositor is provided with a book of blank checks (§ 76) for his use in withdrawing the money deposited; these blank checks are necessary because no money can be withdrawn from the bank except by check. The depositor is required to sign his name on a signature card that the bank may verify his signature on the checks which he writes.

EXPLANATION. The illustration indicates that T. L. Staples has opened an account with the Merchants National Bank and that his checks will be signed as indicated by his signature on the card. His address, name of the person by whom identified, telephone number, and date of opening the account are given for future reference. The card is punched to fit a filing device in which it will be filed alphabetically.

Staples, T. L.	
THE MERCHANTS NATIONAL BANK.	
Signature	<i>T. L. Staples</i>
Signature	
Address / identified by	<i>Lakeside Ave. identified by J. W. Brown</i>
Telephone	<i>624 R</i>
Date	<i>Jan. 16, 19</i>

Illustration No. 56, Signature Card.

§ 73. A **Deposit Ticket** is a printed form supplied the depositors by the bank, on which to list the currency or cash items which he wishes to deposit. Space is provided for the date, name and address of the depositor, the various kinds of currency and cash items deposited, and the total amount of the deposit. Illustration No. 57 shows two deposit tickets, one on which the depositor has listed currency only, and the other on which he has listed currency and cash items.

§ 74. **Method of Making a Deposit.** The depositor should consult with the receiving teller in regard to the preparation of his deposit ticket that he may know the teller's desires in this matter and thus prepare his deposit to suit the convenience of the clerks in the bank. Currency and cash items should be listed

ALWAYS BRING YOUR PASS BOOK.

Merchants National Bank

Deposited by

W. H. Goodwin

By Student

Feb. 191

LIST EACH CHECK SINGLY.	Doll's.	Cts.
Currency	1500	
Silver		
Checks		
"		
"		
"		
"		
"		
"		
Total	1500	

ALWAYS BRING YOUR PASS BOOK.

Merchants National Bank

Deposited by

W. H. Goodwin

By Student

Feb. 191

LIST EACH CHECK SINGLY.	Doll's.	Cts.
Currency	12500	
Silver	1350	
Checks City National	13265	
" Chicago	11860	
" Denver	8825	
" Merchants Natl.	10000	
" Third National	5516	
" New York	42165	
" Merchants Bank	1985	
"		
Total	107466	

Illustration No. 57, Deposit Tickets.

EXPLANATION. The deposit ticket at the left shows a deposit of currency only, and that at the right, currency, silver, and checks. "City National" at the left of the first check listed indicates that the check is payable by the City National Bank and that this is located in the same city as the Merchants National Bank; this statement also applies to the fourth, fifth, and seventh checks listed. "Chicago" written at the left of the second check listed indicates that this check is payable on a bank in Chicago; this same statement applies to the third and sixth checks. Some banks do not require this information while others require information in another form. It is suggested in § 74 that the depositor learn the bank's wishes in regard to the listing of checks.

as instructed by the teller. The receiving teller has many deposits to enter each day and will appreciate the cooperation of the depositor in complying with his suggestions. The depositor should see that the date, his name, and the total of the deposit appear on the deposit ticket, also that the currency and cash items are arranged in the order listed. The depositor should retain a copy of the items deposited, either by making a duplicate deposit ticket or by listing them on the back of the stub from which the last check was removed.

§ 75. The Pass Book is a small bound book ruled with columns for the date, nature of the entry (deposit, discount, or collection), and the amount. As explained in § 74, the receiving teller enters the date and amount of each deposit in this book, this being the depositor's receipt for the deposit. The depositor should always present the pass book with the deposit so that the teller can give him a receipt for it; in case he should forget to bring the pass book, the teller will give him a receipt on a duplicate deposit ticket, which should be retained until the next deposit is made and the amount entered in the pass book at that time. Illustration No. 59 (left side) shows deposits entered in a pass book; further reference is given to this illustration in § 79.

§ 76. A **Check** is a written order by a depositor on his bank, designating to whom he wishes the bank to pay a part or all of the money he has on deposit. It is customary for the bank to provide its depositors with blank checks for the same reason that blank deposit tickets are provided. Checks supplied depositors by a bank are usually bound in book form, each check having attached to it a stub for the depositor's record. Illustration No. 58 shows a check book with two checks to a page and stubs attached, with perforated lines for detaching.

A check is not money, but, since it is used in the place of money, it is accepted as such in business. Custom has established the term "cash" as one which includes money and checks (§ 15). The use of checks for paying obligations is more satisfactory than the use of money because it provides a receipt and avoids errors in making change, and losses through theft.

Deposit, <u>2/1</u> 1500 No. <u>1</u> Date <u>Feb. 3</u> 191 Favor <u>Lake View Creamery</u> For <u>on acct in full</u> Amount, \$ <u>28.00</u> 28 Balance 1472		W. H. GOODWIN RETAIL GROCERIES	No. <u>1</u> Feb. 3, 191 MERCHANTS NATIONAL BANK Pay <u>to the order of</u> <u>Lake View Creamery</u> \$ <u>28.00</u> <u>Twenty eight and 00/100</u> Dollars <u>W. H. Goodwin</u> By your name
Deposit, _____ No. <u>2</u> Date <u>Feb. 5</u> 191 Favor <u>Donaldson Bros</u> For <u>on acct</u> Amount, \$ <u>125.00</u> 125 Bal. Carried Forward 1347			No. <u>2</u> Feb. 5, 191 MERCHANTS NATIONAL BANK Pay <u>to the order of</u> <u>Donaldson Bros.</u> \$ <u>125.00</u> <u>One Hundred Twenty-five and 00/100</u> Dollars <u>W. H. Goodwin</u> By your name

Illustration No. 58, Check Book.

EXPLANATION. The information on the stub is arranged in the same order as that on the check for the convenience of the depositor. The information after "For" is needed by the bookkeeper in recording the transaction (§ 28, ¶ 5). The ruled column at the right of the stub shows the depositor's account with the bank as explained in § 78. The name of the depositor at the left indicates that he has had the checks prepared for his individual use. The dotted lines show perforations for removing each check.

§ 77. **Instructions for Writing Checks.** The check book provided by the bank contains printed forms for use in writing checks, each of which is attached to a stub containing space for all the information written in the check. The stub is for the depositor's record of the check, hence the information to be written in the check should be written on the stub first. The information written on the stub includes the number, the date of issue, the person or business concern to whom the check is written, the reason for writing, the amount, and, if desired, the name of the account to be debited in the cash book. Each check and stub is numbered the same and consecutively, beginning with "1"; these should be numbered at the time the check book is received from the bank.

The information on the check is written in the following order: (1) the date, (2) the name of the person or business concern to whom the check is to be paid, (3) the amount in writing and in figures, and (4) the signature of the depositor, which should be the same as that on the signature card. If desired, the reason for writing may be stated on the check as well as on the stub. The information on the stub and on the check should be arranged in the same order so that the

check can be written from the information given on the stub. Illustration No. 58 shows a check book with two checks to the page and the two stubs and checks properly written, but with neither of the checks removed; the dotted lines show the perforations which make the checks more easily removed. The information in the ruled column at the right of the stub in Illustration No. 58 is for the depositor's convenience in keeping a record of his transactions with the bank, as explained in § 78.

§ 78. **Depositor's Record of His Transactions with the Bank.** Each depositor should keep a record of the transactions which he performs with the bank. This record may be kept in a special blank, on the front or back of the check stub, or in an account in the ledger. Since the depositor should know that the bank balance is sufficient to pay the check he is about to write, the front of the stub is the best place to keep the account with the bank. A column is usually ruled for this in the check book provided by the bank. Reference to Illustration No. 58 will show the method of keeping the bank account on the front of the check stub; the other methods mentioned will be explained and illustrated later.

§ 79. **The Bank's Record of Transactions with Depositors.** The depositor is credited with each deposit and debited with each check paid by the bank. The entry in his account is made from the deposit tickets and the checks which the bank has paid. On the first of each month, the bank renders the depositor a statement showing the date and amount of each deposit, the date paid and amount of each check, the daily balance, and the balance due the depositor at the end of the month. The checks listed on this statement are returned to the depositor with the statement; the deposit tickets are kept on file in the bank. Formerly it was the custom of banks to render this statement by listing the checks in the pass book and ruling it at the end of the month as in Illustration No. 59. With the use of special machines, it is more efficient to render a statement separate from the pass book, as in Illustration No. 60. When the separate statement is rendered, both sides of the pass book are usually used for listing deposits, though some banks enter the total of the paid checks in the pass book and show the balance at the beginning of the month below ruled lines.

In Account with

W. H. Goodwin

Dr. MERCHANTS NATIONAL BANK					
Feb. 1	Deposit	1500	Feb. 3	Check	28
13	"	435.55	5	"	125
28	"	245.60	8	"	197.10
			13	"	150
			17	"	103.60
			23	"	175.70
			28	Balance	1402.45
		2181.15			2181.15
Mar. 1	Balance	1402.45			

Illustration No. 59, Bank Statement in the Pass Book.

EXPLANATION. The illustration shows the opposite pages of a pass book. The information on the left page shows three deposits entered by the teller. The entries on the right show the checks listed by the bookkeeper when the depositor's pass book was balanced at the end of the month. The ruling is similar to the receipts and payments sides of a cash book. As explained in § 79, deposits are usually entered on both sides of the pass book and the canceled checks listed on a separate statement as in Illustration No. 60.

Statement of
W. H. Goodwin
In account with
Merchants National Bank

6 Vouchers Returned

PLEASE EXAMINE AT ONCE (IF NO ERRORS ARE REPORTED WITHIN TEN DAYS THE ACCOUNT
WILL BE CONSIDERED CORRECT AND VOUCHERS GENUINE)

Feb. 1	Deposit	1500.00	
3	Check		28.00
5	"		125.00
8	"		197.10
13	Deposit	435.55	
	Check		150.00
17	"		103.60
23	"		175.00
28	Deposit	245.60	
	Balance		1402.45

Illustration No. 60, Bank Statement Separate from Pass Book.

EXPLANATION. This statement was prepared on a special machine manufactured for making bank statements. The information in this statement is obtained from the account which the bank keeps with the depositor; the statement is rendered monthly. The canceled checks accompany the statement when it is delivered to the depositor.

§ 80. Reconciliation of Depositor's Account with the Bank Statement. The balance shown on the bank statement may or may not be the same as that shown by the depositor's record. If all checks issued by the depositor have been paid by the bank, if there have been no alterations and no errors in addition or subtraction in the depositor's record, the two balances will be the same; if all the checks issued have not been paid by the bank, or there have been errors or alterations, the two balances will not agree. The depositor should audit the bank statement with his record and reconcile the two balances when they do not agree; this reconciliation should be made as soon as the statement is received because alterations of checks should be reported to the bank immediately. The calculations in this reconciliation should be shown on the back of the stub from which the last check issued during the month for which the statement was rendered, was removed. As a rule, the only discrepancy between the two balances will be the amount of the check or checks issued by the depositor but not paid by the bank. The reconciliation should be made in the following manner:

1. Check each deposit with the entry for the same on the check stub. If there is a discrepancy, compare the check stub entry with the entry in the pass book, and this entry with that on the statement. If there is a discrepancy in a deposit ticket which can not be accounted for, it should be audited with the copy on file in the bank.

2. Compare each canceled check received from the bank with the stub from which it was removed; any discrepancy between the amount on the stub and that on the statement should be reported to the bank immediately. Place a check mark at the left of the number on the stub as each check is compared with its corresponding stub.

3. On the back of the stub from which the last check written during the month was removed, list the number and amount of each stub which does not have a check mark at the right of the number; add these amounts to ascertain the total of the checks issued but not paid by the bank. Write the balance shown by the bank statement below the total unpaid checks, and subtract the amount of the unpaid checks from the bank balance; the result should be the same as the check stub balance.

SOUTHERN STATES PHOSPHATE & FERTILIZER CO.

TRADE MARK **SS** **MAKIN**

Atlanta, Ga. January 4 191 No. 91

Pay to the order of Robert McFarland \$ 261.75

Two Hundred Sixty one and 75/100 Dollars

To Bank of the Manhattan Co. } Southern States Phosphate & Fertilizer Co.
New York City. } W. H. Simpson
 Secy. & Treas.

Illustration No. 61, Personal Check.

EXPLANATION. This illustration shows a check prepared by the depositor. It includes the usual information and the name and trade mark of the business.

§ 81. A **Bank Draft** is a check drawn by one bank on funds deposited with another bank. Bank drafts are sometimes referred to as "exchange;" a draft payable by a bank in New York, as "New York Exchange;" one payable by a Chicago bank, as "Chicago Exchange;" etc. Bank drafts are used by banks in payment of checks received for collection, sold to depositors for remitting to the commercial centers, and sold to individuals for sending money through the mail. Illustration No. 62 shows a bank draft payable by the Chase National Bank of New York, hence might be referred to as "New York Exchange." The use of bank drafts is discussed again in a subsequent chapter.

FIRST NATIONAL BANK AT TURLOCK No. **3459**

TURLOCK, CAL. March 2, 1911

PAY TO THE ORDER OF Union Lithograph Co. \$ 365.20

THREE HUNDRED NINETEEN DOLLARS TWENTY CENTS DOLLARS

TO CHASE NATIONAL BANK, NEW YORK. } Fred C. Webber
 1-74 CASHIER

Illustration No. 62, New York Bank Draft.

EXPLANATION. This illustration shows a check drawn by the First National Bank, Turlock, California, on funds which it has deposited with the Chase National Bank, New York.

§ 82. A **Cashier's Check** is a check drawn on a bank by its cashier. It is used in the payment of the operating expenses of the bank, in payment of the proceeds of collections or discounts made by the bank, and in payment of other obligations of the bank. Cashier's checks are sold to those who wish to use them as a means of sending cash through the mails in the same manner as bank drafts. Illustration No. 63 shows one form of cashier's check.

SECURITY STATE BANK 28-57
OF SPOKANE

SPOKANE, WASH., Feb. 7, 1911 No. **2355**

PAY TO THE ORDER OF John Epperson \$ 1200⁰⁰

CASHIER'S CHECK } Chas. Benson CASHIER

TWELVE HUNDRED DOLLARS

Illustration No. 63, Cashier's Check.

EXPLANATION. This illustration shows a check drawn by the cashier of the Security State Bank, Spokane, Wash., and payable by this bank.

§ 83. **Money Orders.** A money order is a check issued by one postmaster on funds deposited with another postmaster, by one agent of an express company on funds deposited with another agent of the same company, or by a bank on funds deposited with the Banker's Trust Company of New York. The first is referred to as a "postal money order;" the second, an "express money order;" and the third, an "American Bankers' Association (A. B. A.) check."

WHEN COUNTERSIGNED BY AGENT AT POINT OF ISSUE **EXPRESS MONEY ORDER** **11-5684625**

American Express Company

AGREES TO TRANSMIT AND

PAY TO THE ORDER OF Harold A. Waltham

THE SUM OF Forty-eight and ⁵⁰/₁₀₀ **DOLLARS**

C. H. Arnold AGENT

ISSUED AT Worcester STATE OF Mass

DATE January 9, 1911 Carl C. Davidson

50 NOT PAYABLE FOR MORE THAN FIFTY DOLLARS

Illustration No. 64, Express Money Order.

EXPLANATION. This illustration shows a money order issued by the American Express Company. Carl C. Davidson, who wished to send money to Harold A. Waltham, presented \$48.50 and the required fee to an agent of the American Express Company and received this money order for it. The purpose of money orders is to provide a means of transferring money from one locality to another with safety and convenience.

Postal money orders are for sale by each postmaster to those who wish to send money through the mail; they are also used by postmasters in remitting for collect on delivery parcel post shipments. Express money orders are for sale to those who wish to send money through the mail and, in this respect, are used for the same purpose as post-office money orders. Express money orders are arranged in convenient form for those who need expense money for a business or pleasure trip and do not wish to carry currency; they are also used by express company agents for remitting on "collect on delivery" express shipments. Bank drafts are used in the same way as express money orders—that is, for sending money through the mail—and for the convenience of those who wish to have available cash, but cash without carrying currency. A detailed discussion of "collect on delivery" shipments and a further discussion of the use of express money orders in connection with making remittances, are given in a subsequent chapter.

§ 84. **Endorsements.** An endorsement is any writing on the back of a check or other commercial paper, placed there for the purpose of transferring the title, receipting for part payment, or for the accommodation of some one or more of the parties on the paper. For convenience the endorsement should be written about one inch from the left-hand end of the paper, as in Illustration No. 65.

The endorsing of commercial paper should be well understood, as it transfers the title to the holder and holds the endorser liable in case default is made in payment. The law allows the same protection to commercial paper as it does to money, and unless it is properly endorsed, if lost, the finder may dispose of it to an innocent holder, in which case the loser can not recover it.

E. N. Nurre

Dec 21 1919 No. 1351 #65

ONAL BANK

Lead Co. \$324 ⁷⁵/₁₀₀

ty-four ^{and} ⁷⁵/₁₀₀ DOLLARS

Lehman

Illustration No. 65, Position of Endorsement.

EXPLANATION. This check is payable to The National Lead Co. and endorsed by it for deposit with the Third National Bank. The endorsement is placed on the left-hand end of the check for convenience.

§ 85. **Endorsement for Transfer.** There are a number of ways in which the holder of a commercial paper may write his name in order to transfer the title, but the four most frequently used are "in blank," "in full," "for deposit" and "for collection."

John Jones

¶ 1. "*In Blank.*" An endorsement in blank is the name of the payee or holder only, written across the back. It has the same effect as making the paper payable to bearer, and it may be transferred by any subsequent holder, without further endorsement, but the endorsement of each holder is generally required, for identification. See illustration at the left.

Pay to the order of
C. W. King
John Jones

¶ 2. "*In Full.*" This endorsement is effected by writing "Pay to the order of" above the name of the person or firm to whom it is transferred, and signing the name of the payee or holder. The person to whom it is transferred must endorse it before any succeeding holder can use it. All papers sent through the mail, or to be held for some time should be endorsed in full. See illustration at the left.

Pay to the order of
Union Bank
For deposit
W. H. Goodwin

¶ 3. "*For Deposit.*" These words should be written above the name of the depositor on checks and other cash items to be deposited in the bank. This qualifies the endorsement and prevents their being used except for deposit. If desired, a rubber stamp with the words of the illustration at the left may be used for this purpose. If a stamp is used, the one who makes the deposit should indicate his name in connection with the endorsement.

Pay to the order of
Union Bank
For collection
W. H. Goodwin

¶ 4. "*For Collection.*" Commercial paper left at a bank or other collection agency for collection, should have "For Collection" written above the endorsement, as in the illustration at the left. Unless the endorsement is qualified in this manner, the owner might be held responsible as an endorser for the collection of the paper in case of the bankruptcy of the bank or collection agency. This is a condition that might not occur often, but, if it can be avoided by the qualified endorsement, then the holder should protect his interests through the endorsement.

The result of improper endorsements for collection may be illustrated by the following incident, which is true with the exception of the names. Robert Smith endorsed a note in blank and left it with his bank for collection. Mr. Smith died before the note was due. The bank failed and a receiver was appointed. Transactions performed by the bank had not been recorded correctly and in some cases there was doubt as to the ownership of the papers. The estate of Mr. Smith could submit no evidence to show that the note endorsed by him was left for collection, hence the receiver of the bank assumed that it was discounted, and held the estate responsible on account of Smith's endorsement.

Exercise No. 44, Personal Check.

As paying cashier for the Johnson Paint Co., Chicago, write the stub and check required to pay for the merchandise purchased from the Globe-Wernicke Co., Cincinnati, in Exercise No. 43. Use the first check and stub in Illustration No. 58 as a model.

Exercise No. 45, Reconciliation of Bank Account.

J. E. Gill performed the following transactions with the Merchants National Bank during the month of April:

2.	Deposit	\$2,900.00	13.	Check No. 13	\$457.74
2.	Check No. 1	208.80	14.	" " 14	48.10
2.	" " 2	20.00	14.	" " 15	273.42
3.	" " 3	450.00	14.	Deposit	341.38
4.	" " 4	101.00	16.	Check No. 16	150.00
5.	" " 5	150.00	18.	" " 17	256.01
6.	" " 6	75.00	21.	" " 18	94.75
7.	" " 7	165.50	21.	Deposit	791.00
7.	" " 8	40.00	24.	Check No. 19	141.32
7.	" " 9	38.00	25.	" " 20	103.88
7.	Deposit	248.65	27.	" " 21	279.77
10.	Check No. 10	445.23	28.	" " 22	38.00
11.	" " 11	60.00	30.	" " 23	567.43
11.	" " 12	49.50	30.	Deposit	815.24

1. On a slip of paper, write "Bank Account on Check Stub," and below this write the date and amount of each deposit, the date, number, and amount of each check, showing the balance in the bank after each deposit has been added and each check subtracted.

2. On a slip of paper, write "Reconciliation of Bank Account," and below this show the reconciliation of Mr. Gill's bank account with the statement received from the bank May 1, which shows a balance of \$1,667.57 and is accompanied by all canceled checks except Nos. 9, 19, 22, and 23.

Exercise No. 46, Reconciliation of Bank Account.

Show the bank account on the front of the check stub for W. A. Gordon (Model Set beginning on page 61) for the month of September and on the back of the check stub for the month of October, assuming that all payments were made by check, that the investment September 1 was deposited on that date and other deposits were made each time cash was proved, and that the check book contained two checks to the page.*

Show the reconciliation of the bank account on October 1 with the statement received from the bank on that date, which shows a balance of \$768.00 and is accompanied by all canceled checks except No. 6.

Show the reconciliation of the bank account on November 1 with the statement received from the bank on that date, which shows a balance of \$703.39 and is accompanied by all canceled checks except Nos. 12 and 16.

*When the bank account is kept on the front of the check stub, each check is subtracted as it is written, each deposit is added at the time it is made, and the balance is carried forward at the bottom of each page as in Illustration No. 58. When the bank account is kept on the back of the check stub, the number and amount of each check issued since the last deposit was made are listed, added, and subtracted from the sum of the preceding balance and the deposit that is to be made. In September the student will subtract each check as it is issued from the deposit of September 1st until the next deposit is made; this deposit will be added to the balance left after subtracting the last check, and succeeding checks will be subtracted as they are issued, showing in each case the balance in the bank after each check is issued. In October the balance and the first deposit, which is made at the time cash is proved, are added together; checks issued between October 1st and the date of the first deposit in October are listed, added, and their total subtracted from the total of the balance and the deposit, the result showing the balance in the bank at the time cash is proved.

QUESTIONS

1. Why do the officials of a bank require reference from a new depositor if they are not personally acquainted with him?
2. What evidence does the depositor have that he has deposited money in the bank?

3. What evidence does the bank have that it has paid a part or all of the money which the depositor has deposited?
4. Why should the bookkeeper retain a copy of each deposit ticket?
5. Name two ways of retaining this copy.
6. What additional information is contained in the copy of the deposit ticket that is not shown by the entry in the pass book?
7. If you were auditing the entries on the receipts side of the cash book, what need would you have for the copies of the deposit tickets and the entries in the pass book?
8. If you were to find a check signed by a local merchant, payable to Robert Jones, and "Robert Jones" was written on the back, how could you obtain the money on this check?
9. If the bookkeeper writes a check and fails to fill out the stub, how will he detect the error?
10. If you were keeping books for a local merchant and he withdrew \$100.00 from the bank by check, using one of the blanks on the counter in the bank, and failed to tell you that he had issued the check, when and how would you learn about it?
11. Name two means of ascertaining the amount of a check if it is removed from a check stub without the stub being filled out?
12. If the bookkeeper makes an error of \$10.00 in subtracting the amount of a check on the check stub, how will he detect the error?
13. If you were keeping books, would you prove cash before making a deposit? Give reasons for your answer.
14. If there is an error of \$10.00 in the addition of a deposit ticket and a corresponding error in the addition in the cash book, when and how will the bookkeeper discover the error?
15. How is a check used in the place of money?
16. Explain why a check which has been paid by the bank may be regarded as a receipt.
17. If you were making a trip in an automobile from New York City to San Francisco, would you prefer your expense funds to be in money, to be deposited in a Chicago bank subject to check, or in money orders? Give reasons for your answer.
18. John Anderson in Atlanta, Georgia, wishes to send \$35.00 to Henry Smith in St. Louis, Missouri. Name four ways by which he can send this, and state which you think would be the best.
19. Why is it better for the bookkeeper to keep the bank account on the front of the check stub?
20. Name three reasons why the statement rendered by the bank on the first of the month might be different from the depositor's record on the check stub.
21. If R. W. Sanderson leaves a check payable to himself at the bank for collection, how will he endorse it?
22. If you were keeping books for a local merchant and received a check from a customer for \$112.50 marked "In full of account," and his account showed a balance of \$117.50, what would you do?
23. Name some of the advantages to the bookkeeper when cash payments are made by check instead of with currency.
24. Why does the bank return the paid checks when it sends the monthly statement?
25. Why is the endorsement written on the left instead of the right end?

Chapter XI

BUSINESS FORMS AND VOUCHERS—(Concluded)

§ 86. A Note is an unconditional written promise to pay a fixed amount of money at a stated time, and is signed by the person or persons agreeing to pay it. If desired, the place at which the note is to be paid may be stated in it. A note has two original parties, the maker and the payee. The maker is the one who signs the note and thereby agrees to pay the amount stated in it; the payee is the one in whose favor the note is made, that is, the one to whom the money is to be paid. A note indicates that the maker is indebted to the payee and acknowledges this indebtedness by agreeing to pay it at the time stated in the note.

1. The face of a note is the amount stated in it. This amount is shown as its value in the account with notes (§ 102, ¶ 1, or § 103, ¶ 2).

2. The maturity value of a note is the amount to be collected at maturity. If a note reads "with interest after maturity," the face is the maturity value; if it reads "with interest from date," the maturity value is the face plus interest at the legal rate from date to maturity.

\$42.30 To W. H. Goodwin For amt in full Date Feb. 16, 192 Term 15 days Due March 3 No. 18	\$42.30 SAN ANTONIO, TEXAS Feb. 16, 192 Fifteen days after date I promise to pay \$0 the order of W. H. Goodwin Forty-two 30/100 Dollars W. Merchants' Tail Bank For \$000 received without any receipt whatever from Validation or Disbursement. This will paid until the next time No. 18 Due Mar. 3 A. C. Williams
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Illustration No. 66, Note With Stub Attached.

EXPLANATION. This note indicates that A. C. Williams owes W. H. Goodwin the amount mentioned and has promised to pay it at the time and place indicated.

§ 87. Use of Notes. Notes are used as written evidence of indebtedness resulting (a) from a purchase of merchandise or other property, (b) from a loan, or (c) from an extension of time for the payment of a past-due obligation as shown by an account. With the advantages of the trade acceptance, notes are not often given in payment for merchandise purchased at the time it is purchased. A bank will require written evidence of an obligation resulting from money loaned; the business man may give his own note as evidence of the loan, or he may sell to the bank notes which he has received from his customers. When an account is past due and the customer desires more time, he may make settlement by accepting a draft or by giving his note; the results are the same in that he secures an

extension of time by giving a written promise to pay it at the time specified in the note or draft.

(a) James Brown buys a piano from the Starr Piano Co. for \$500.00. He pays \$100.00 cash and gives four notes for \$100.00 each, due in three, six, nine, and twelve months respectively, in payment for the piano.

(b) The Starr Piano Co. wishes to borrow \$1,000.00 from the bank with which it does business. A note is issued for this amount, bearing interest at 6% from date, payable in ninety days, and this is presented to the bank for credit. The Starr Piano Co. will receive credit for the \$1,000.00 in their pass book in the same manner as for a deposit.

(c) The Acme Amusement Co. purchased an electric player piano from the Starr Piano Co. for \$1,500.00, and paid \$800.00 cash, balance to be paid in thirty days. At the end of the thirty days the Acme Amusement Co. arranged with the Starr Piano Co. for an extension of sixty days by giving their note for \$700.00, with interest, payable to the Starr Piano Co.

§ 88. Endorsement of Notes. There are three reasons for the endorsement of a note: (a) accommodation (security), (b) transfer of ownership, and (c) receipt for part payment. Endorsement for accommodation is usually made as explained in § 85, ¶ 1; endorsement for transfer of ownership is usually made as explained in § 85, ¶ 2; endorsement for a receipt of \$100.00 in part payment of this note is made as follows: "Jan. 10, Received \$100.00 in part payment of this note." The holder will endorse the part payment on the note but should not sign his name because this transfers ownership in case the note gets out of his possession.

Banks sometimes require security in addition to the signature of the business concern borrowing money. Should this have been required of the Starr Piano Co. in the loan of \$1,000.00 mentioned in § 87, (b), one of the individuals who owns an interest in the business would sign his name on the back as explained in § 85, ¶ 1. Should the Starr Piano Co. wish to sell the note received from James Brown, the endorsement would be "in full" as explained in § 85, ¶ 2. If the note was to be transferred to the First National Bank, the endorsement would be "Pay to the order of the First National Bank, Starr Piano Co., by (the name of the person authorized to sign for the company)." Should the Acme Amusement Co. in the illustration pay \$200.00 on the note given in extension of its account, receipt for part payment would be indicated by writing the date and the amount received on the back, as explained above.

§ 89. Effect of Notes on the Bookkeeping Records. When a note is issued by the business, full information in regard to it is retained on the stub from which it was removed. An entry is required in a book of original entry because the note would not have been issued unless value was received; the value received might be an obligation canceled or a new obligation created. If the note cancels a liability, the value received is the discharge of this obligation or liability, hence the account which shows it is debited; if the note creates a new obligation, an asset of equal value is received, hence the value received is this asset, and the account with it is debited; the value parted with in either case is the obligation created by the note, hence the account with notes issued by the business (§ 103, ¶ 2) is credited. When a note is received by the business, it may be in payment for merchandise or other property purchased at the time the note was issued. The value received is the note, hence the account which is to show the amount of notes owned by the business (§ 102, ¶ 1) is debited. The value parted with is the merchandise sold or the account with the customer, hence either the Sales or the customer's account is credited. If desired, the sale can be entered in the sales journal in the same manner as any other sale on account, debiting the customer's account; in this case, the credit to the Sales account will be through the sales journal, hence the credit for the note would be to the customer's account in the same manner as if the note were received in payment of an account already in the ledger.

Transactions in which notes are issued or received by the business are usually recorded in the general journal unless cash is received for a note issued or paid for a note received, in which case the entry is made in the cash book. Special journals may be provided for notes issued and received by the business; these are explained and illustrated in a subsequent chapter.

Referring to the illustrations in § 87:

(a) The sale would be recorded in the sales journal, thus debiting James Brown and crediting Sales; the cash would be recorded in the cash book, thus debiting Cash and crediting James Brown; and the notes would be recorded in the general journal, debiting the account with notes received (§ 102, ¶ 1) and crediting James Brown.

(b) The entry would be made on the receipts side of the cash book, thus debiting Cash and crediting the account with the note issued by the business (§ 103, ¶ 2.)

(c) The sale would be recorded in the sales journal, thus debiting the Acme Amusement Co. and crediting Sales; the cash would be recorded in the cash book, thus debiting Cash and crediting the Acme Amusement Co.; the note would be recorded in the general journal, debiting the account with notes received (§ 102, ¶ 1) and crediting the Acme Amusement Co.

§ 90. A Note Should Be Signed by the person or persons responsible for its payment. If an agent is authorized to execute a note for another, he signs the name of his principal and his name below, either preceded by "per" or "by" or followed by "agent;" the omission of the word before or after the agent's name might cause him to be held jointly with the principal. The one who signs a note for another is regarded as the agent, and the one responsible for the payment, as the principal; the agent should have a written statement from the principal authorizing him to sign his name. The holder of a note will expect payment from the person or persons whose names are signed to it; he will also hold responsible for the payment each individual whose name appears on the back of the note.

Referring to the illustrations in § 87:

(a) The notes would be signed by James Brown who purchased the piano.

(b) This note would be signed "Starr Piano Co.," by the individual authorized to sign, usually the president or secretary if it is a corporation, or one of the partners if it is a partnership.

(c) This note would be signed in the same manner as that described in (b) because the name of the company is not that of an individual and means nothing when signed to a note unless accompanied by the name of the individual authorized to sign.

§ 91. A Draft is a written order from one party to another, directing him to pay a certain sum of money to a third party. A draft has three original parties: the drawer, the drawee, and the payee. The one signing the draft is the drawer; the one who is asked to pay the amount is the drawee; and the one to whom the money is to be paid is the payee. The draft indicates that the drawee is indebted to the drawer, and that he (the drawer) wishes the amount paid to the payee. Drafts are usually drawn on blank forms bound in a book, each draft being provided with a stub for a record of the facts shown by the draft. There are three kinds of drafts, *time drafts*, *sight drafts*, and *trade acceptances*.

§ 92. A Time Draft is one payable a certain number of days after presentation; it indicates that the drawer is willing to allow the drawee additional time to make payment of the indebtedness due the drawer. This additional time is indicated by stating in the draft that the amount is to be paid the designated number of days after acceptance. The drawee of a time draft is not obligated to accept it when it is presented by the payee. If he does accept it, this acceptance is indicated by writing across the face of the draft the word "Accepted," followed by the date of acceptance, and the drawee's signature; if desired, the place of payment may also be indicated in the acceptance. If the drawee does not elect to accept the draft when presented to him by the payee, the payee should immediately return it to the drawer so that he may know the drawee has not complied with his request. Illustration No. 67 shows one form of time draft.

1. An acceptance is a time draft after it has been accepted. It is the same as a note because the acceptance is the written promise of the person who accepts it to pay the amount mentioned within the number of days stated in the draft. The account which shows a record of notes should also contain a record of accepted drafts.

Draft for \$175.48
 Date June 10, 1912
 On W. H. Goodwin
 Place San Antonio, Texas
 Time 30 days
 In favor of Alamo Nat. Bk.
 Acc't of Fox and Joy
 No. 71

St. Louis, Mo. June 10, 1912
 At thirty days sight
 Order of Alamo Nat. Bank, San Antonio
 One Hundred Seventy-five and 48/100 Dollars
 Value received and charge to account of
 To W. H. Goodwin
 No. 71 San Antonio, Texas
 Donaldson & Joy
 By Jay

Illustration No. 67, Time Draft Accepted and Returned.

EXPLANATION. The draft in the illustration was drawn June 10, sent to the bank for presentation and acceptance, presented to the drawee and accepted by him on June 15, and returned to the drawer by the bank. The draft is shown detached from the stub because the date of acceptance was entered on the stub by the bookkeeper for Donaldson & Joy after the draft was accepted and returned.

The bookkeeper should indicate on the stub the final disposition of each sight and time draft drawn by showing the acceptance on the stub as in the above illustration, or, if a sight draft, by entering "Paid" and the date of payment on the stub, or by entering "Returned" and the date on the stub if either the sight or time draft is not paid or accepted. The acceptance of a time draft and the entry on the stub may be made with red or black ink; the use of red ink is optional with the bookkeeper.

§ 93. A Sight Draft is one which is payable upon presentation; it indicates that the indebtedness of the drawee to the drawer is due or past due, and that the drawer desires it to be paid immediately. The drawee of a sight draft is not obligated to pay it when it is presented to him by the payee, but if he does pay it, he will hold the draft as his receipt for the payment; if he refuses payment, the payee should return the draft to the drawer at once. Illustration No. 68 shows one form of sight draft.

Draft for \$327.50
 Date Feb. 21, 1912
 On W. H. Goodwin
 Place San Antonio
 Time Sight
 In favor of 1st Nat. Bk.
 Acc't of San Antonio
 No. 97

Chicago, Ill. Feb. 21, 1912
 At sight
 Order of First Nat. Bank, San Antonio
 Three Hundred Twenty-seven and 50/100 Dollars
 Value received and charge to account of
 To W. H. Goodwin
 No. 97 San Antonio, Texas
 Anderson Bros.
 By J. D. Anderson

Illustration No. 68, Sight Draft with Stub Attached.

EXPLANATION. The draft in this illustration indicates that W. H. Goodwin of San Antonio, Texas, owes Anderson Bros. of Chicago, the amount mentioned in the draft. Anderson Bros. have asked him to pay the amount to the First National Bank of San Antonio, Texas. This draft will be sent to the First National Bank with instructions to present it for collection. If W. H. Goodwin pays the draft when it is presented, the bank will write Anderson Bros. to this effect and send a bank draft or cashier's check for the amount collected, less a small collection charge. If the draft is not paid upon presentation, it will be returned to Anderson Bros.

§ 94. **A Trade Acceptance** is defined by the Federal Reserve Board as "a bill of exchange (time draft) drawn by the seller on the purchaser of goods sold, and accepted by such purchaser," this acceptance being made on the date of purchase or within a few days thereafter. The trade acceptance is in the form of a draft, but it differs from a draft in that it is accepted by the drawee at the time the merchandise is purchased, while the acceptance of a draft is usually after the debt is due, as shown by the drawer's account with the drawee. Trade acceptances and the accounting procedure in connection therewith are discussed more fully in a subsequent chapter.

§ 95. **Use of Drafts.** Sight drafts are used for collecting past-due debts from out-of-town customers, and for collecting "collect on delivery" freight shipments. Time drafts are used for collecting past-due debts from out-of-town customers, and for changing an account to a written promise to pay at a designated time. Trade acceptances are used to secure written evidence of a sale at the time the sale is made.

September 10 Robert Anderson & Co., Chicago, sell merchandise to James Cowan, Louisville, on thirty days' time. Mr. Cowan fails to send remittance when the debt is due October 10, and Robert Anderson & Co. undertake to make collection by drawing a sight or time draft on him, payable to the First National Bank in Louisville. When this draft is presented, Mr. Cowan will either pay the (sight) draft or accept the (time) draft. If it is a sight draft and paid, the First National Bank will send Robert Anderson & Co. a cashier's check or bank draft in payment; if it is a time draft and accepted, the bank will follow the company's instructions in regard to retaining it for collection or sending it to them.

September 15 Robert Anderson & Co. sell Albert Baker, Springfield, merchandise on ninety days' time. October 10 Robert Anderson & Co. find that it will be necessary for them to borrow money from the bank. They write Albert Baker for the privilege of drawing a sixty-day draft for the amount of his indebtedness. It is quite probable that he will have no objections to accepting the draft because it does not change the time of paying his obligation. If he accepts the draft, Robert Anderson & Co. will have a written statement of the amount he owes and can discount this at the bank and thus secure the money which it needs.

§ 96. **Endorsement of Drafts.** The only reason for any writing on the back of a draft is to transfer title or to authorize collection. If the payee is a bank located in the same city as the drawer, the endorsement will be for collection as explained in § 85, ¶ 4, to transfer it to a bank in the city where the drawee is located. Several endorsements might be necessary in case the collecting bank sends it through banks with which it does business; the form of endorsement in each case would be the same as that described in § 85, ¶ 4. In case the holder of an accepted time draft wishes to sell it, the endorsement would be "in full" as explained in § 84, ¶ 5.

In the first illustration given in § 95, no endorsement would be required on the sight or time draft in favor of the Louisville bank. If either the sight or time draft had been drawn in favor of the Corn Exchange National Bank of Chicago, it would have been necessary for this bank to send it to the Louisville bank for collection. The endorsement would be as illustrated in § 85, ¶ 4.

When Robert Anderson & Co. discounted the acceptance of Albert Baker, described in the second illustration given in § 95, the endorsement would be "in full" as explained in § 85, ¶ 2.

§ 97. **Effect of Drafts on the Bookkeeping Records.** When the owner of a business draws a draft on an out-of-town customer, he retains a record of the draft through the stub from which it was detached. Since he does not know that the customer will pay the (sight) draft or accept the (time) draft upon presentation, no additional record is needed in regard to the draft. When the payee advises him of the drawee's action in regard to the draft, he indicates the result on the stub from which the draft was detached. When the drawee accepts a time draft a record of this is made in the general journal because the indebtedness is now in the form of a written agreement (the acceptance indicating this) and the open account is canceled thereby. The value received is the draft, hence the account with accepted drafts (§ 102, ¶ 1) is debited; the value parted with is the

account with the customer (§ 27, ¶ 2), hence it is credited. When the drawee pays a sight draft upon presentation, the payee will send the drawer a cashier's check or bank draft in payment for the draft, the draft having been left with the payee as a receipt. When this remittance is received by the drawer, the customer is given credit on the receipts side of the cash book in the same manner as if he had sent his check in payment of the account.

When the business pays a sight draft drawn on it by a creditor, the same entry is made in the cash book as if a check had been sent direct to the creditor in payment of his account. When the business accepts a time draft drawn on it by a creditor, an entry is required in the general journal; the account with the creditor (§ 28, ¶ 1) is debited because it is canceled, and the account which is to show a record of written promises to pay (§ 103, ¶ 2) is credited because this account will show the indebtedness until it is paid.

§ 98. Protest. Each person or business concern whose name appears as an endorser on any commercial paper (for instance, check, note, or draft) guarantees payment provided the holder will first present the paper to the one who is responsible for payment and thus endeavor to make collection. The law provides that the only evidence the holder can use as a defense in a case of court action is the protest by a notary public. This protest is a form which the notary public sends to each endorser after he has presented the paper to the one responsible for its payment and payment has been refused.

The Starr Piano Co. sells the note received from the Acme Amusement Co. (Illustration "c" in § 87) to the First National Bank, endorsing the note as evidence of transfer. On the date the note falls due, the bank presents it at the office of the Acme Amusement Co. and demands payment from the official who signed the note; payment is refused. The note is given to a notary public and he presents it to the same official. If payment is still refused, he notifies the Starr Piano Co. on the proper legal form. Unless the bank had taken this procedure, the Starr Piano Co. would have been relieved of the responsibility of making payment, and the bank would have lost the amount unless it could collect from the Acme Amusement Co.

Exercise No. 47, Order, Sales Invoice, Acceptance, and Cashier's Check.

May 10 the Davis Printing Company, Pittsburgh, placed an order with Ault & Wiborg, Cincinnati, manufacturers of printer's ink, for 150 lbs. of printer's ink (black) at \$1.25, and 75 lbs. of printer's ink (blue) at \$1.50. May 15 Ault & Wiborg acknowledged receipt of this order by an invoice. The merchandise was billed net 30 days and shipped via Steamer Queen City. The Davis Printing Company had not paid this invoice June 15 and Ault & Wiborg drew a draft at ten days' sight, payable to the Mellon National Bank in Pittsburgh, and sent the draft to it for acceptance and collection. The bank presented the draft May 17 and the Davis Printing Company accepted it. May 25 the bank notified the Davis Printing Company that the draft was due May 27. The Davis Printing Company paid the draft by check on the Mellon National Bank the day it was due. The bank sent a cashier's check for the amount of the draft less \$1.00 collection charges May 28.

Prepare the purchase order which the purchasing agent for the Davis Printing Company would issue, the sales invoice which the bookkeeper for Ault & Wiborg would make, the draft which the bookkeeper for Ault & Wiborg would draw, the acceptance which the bookkeeper for the Davis Printing Company would make on this draft, and the cashier's check which the cashier of the Mellon National Bank would send to Ault & Wiborg.

Exercise No. 48, Order, Sales Invoice, Sight Draft, and Cashier's Check.

September 25 the Starr Piano Co., Chicago, sold the Jones Piano Co., Milwaukee, 100 Victrola records at 51c, terms 30 days; shipment was made via American Railway Express, charges collect. October 28 the bookkeeper for the Starr Piano Co. drew a sight draft on the Jones Piano Co. for the amount of this invoice

payable to the First National Bank in Chicago, and left it with the bank for collection. The bank sent the draft to the Second National Bank in Milwaukee with instructions to present it to the Jones Piano Co. for payment. The draft was paid by John Nash, an employee of the Jones Piano Co., upon presentation by a clerk of the Milwaukee bank, and the Milwaukee bank sent the Chicago bank a cashier's check for \$50.75, retaining 25c for collecting the draft. The Chicago bank notified the Starr Piano Co. that the draft had been collected and their account credited with \$50.75, the proceeds of the draft.

Prepare the purchase order which the purchasing agent for the Jones Piano Co. would issue, the sales invoice which the clerk for the Starr Piano Co. would make, the draft which the bookkeeper for the Starr Piano Co. would draw, and the cashier's check which the First National Bank of Chicago would receive from the Second National Bank of Milwaukee. Show the endorsement which the Chicago bank would make on the draft before sending it to the Milwaukee bank, and the entry the Chicago bank would make in the pass book of the Starr Piano Co. for the cashier's check received in payment for the draft.

Exercise No. 49, Notes, Time Drafts, Sight Drafts, Bank Drafts, and Checks.

The following transactions in connection with notes and drafts were completed by the Central Hardware Company of Buffalo during July and August:

- July 1. Received from Trowe Bros., Watertown, in full of account, a note for \$525.65, dated June 29, due in two months, with interest at 6% after maturity, payable at the First National Bank of Watertown.
- July 28. Accepted a draft drawn July 26 by the Harding Mfg. Co., Little Falls, for \$1,214.60, payable at thirty days' sight. This draft was drawn in favor of the Citizens National Bank, Little Falls, and sent by this bank to the Third National Bank of Buffalo, which presented it for acceptance.
- Aug. 17. Paid by check on the Third National Bank of Buffalo a sight draft for \$275.60, drawn by Rand & Co., Cleveland, Ohio, August 15.
- Aug. 27. Gave the Third National Bank of Buffalo a check for \$1,214.60 in payment for a bank draft drawn on the Chase National Bank, New York City, for the same amount, and sent this draft to the Harding Mfg. Co., Little Falls, in payment for the acceptance of July 28.
- Aug. 31. Received from Trowe Bros. a new note, dated July 29, with interest at 6% from date, due in two months, payable at the First National Bank of Watertown, and a cashier's check for \$300.00 drawn on the First National Bank of Watertown by M. A. Rand, cashier, in our favor, in payment for their note due today.

Prepare the following business forms:

1. The note required in the transaction of July 1.
2. The draft required in the transaction of July 28, with all endorsements.
3. The draft and check required in the transaction of August 17.
4. The check and bank draft required in the transaction of August 27.
5. The note and cashier's check required in the transaction of August 31; the new note should be made payable at the same bank as the one renewed.

QUESTIONS

1. Would the Horne Department Store, Pittsburgh, draw a sight draft on C. A. Eades, 1262 Penn Ave., Pittsburgh, to collect a debt due from him? Why?

2. Would this concern accept a note in settlement of the account?
3. U. B. Sweet owes the Candy Kitchen an account of \$100.00 and secures an extension of sixty days by giving his note for this amount, due at the expiration of that time. (a) Have his liabilities decreased? (b) Have the assets of the Candy Kitchen increased? (c) To whom will the note be paid?
4. Why should a draft be made payable to the bank at which the drawee does business?
5. Would you consider it fair for one of your creditors to draw a sight or time draft on you for an amount you owed without first notifying you?
6. Is it necessary for the drawee of a draft to pay or accept it when presented? Why?
7. In what respects is a sight draft similar to a check?
8. In what respects is an accepted time draft similar to a note?
9. If you sell merchandise to a customer in another city, how will you expect him to pay for the merchandise?
10. Would you consider it fair for this customer to send you a draft drawn on one of his customers in your city, asking you to collect your debt from this customer?
11. How does the drawee of a time draft indicate that he will pay the amount of the draft?
12. How does the drawee of a sight draft indicate that he will pay the amount of the draft?
13. Explain the use of notes and drafts in business.
14. If the drawee pays a sight draft, what accounts are debited and credited?
15. If the drawee accepts a time draft, what account shows the value received? the value parted with?
16. What accounts are affected when the owner of the business accepts a note from a customer in full of account?
17. Name the accounts debited and credited when the business issues a note (a) for borrowed money, and (b) to pay a creditor.
18. What accounts represent the value received and the value parted with to the drawee of an accepted draft? To the drawer?
19. Why is a draft endorsed? a note? a check?
20. Distinguish between the face value and maturity value of a note.
21. If John Smith transfers a check to you by endorsement and the bank refuses payment of the check because the one who drew it did not have sufficient funds on deposit, how would you notify John Smith of the bank's action so as to hold him responsible for the amount of the check?
22. Why is it advisable to have the receipt of part payment for a note endorsed on the back instead of acknowledged by a separate receipt?
23. Why is it advisable for the holder of the note not to write his name in connection with the endorsement of a receipt for part payment?
24. Explain the difference between a note and a check.
25. Whom does the holder of a note hold responsible for its payment?

Chapter XII

ACCOUNTS WITH FIXED ASSETS, NOTES, AND INTEREST

The Purpose of this Chapter is to explain accounts with fixed assets, notes and interest. A knowledge of these accounts is necessary because they are needed in the recording of business transactions. Equipment is needed in connection with the operations of the business; transactions frequently occur involving the use of notes and drafts; and interest cost and interest income must be recorded.

§ 99. **Fixed Assets.** The building or place in which the business conducts its operations usually requires certain fixtures necessary in connection with the operations of the business; these include shelving, show cases, desks, typewriters, filing cases, etc. This property, when purchased, becomes a part of the assets of the business; such assets are usually referred to as "fixed assets" to distinguish them from "current assets," such as cash, merchandise in stock, accounts due from customers, etc. The value of property purchased for use in the business is recorded in a special account or accounts, in such a way that the cost value of the property will always be shown; the balance should show cost to facilitate insurance adjustment in case of fire and to determine the yearly depreciation which is based on the cost. The Furniture and Fixtures account is the only fixed asset account discussed in this chapter; a more complete discussion will be given in a subsequent chapter.

FURNITURE AND FIXTURES ACCOUNT

§ 100. **The Purpose of this Account** is to show the cost value of property purchased for use in the office and store room, which includes desks, filing cabinets, typewriters, show cases, scales, etc. A permanent record of each article purchased should be kept, either in the explanation column of the account or in a separate inventory book.

Debit the Furniture and Fixtures Acct.:

¶ 1. For the value of furniture and fixtures on hand at the beginning of business, and for the cost value of such property purchased.

Credit the Furniture and Fixtures Acct.:

¶ 2. For the cost value of furniture or fixtures sold, the cost of which was debited to this account when purchased.

¶ 3. *The Balance of the Furniture and Fixtures Account* shows the cost value of the furniture and fixtures owned by the business* as the result of transactions in which furniture and fixtures were purchased or sold. It is shown on the Balance Sheet as one of the "Fixed Assets."

§ 101. **Transactions with Notes and Accepted Drafts** require accounts in which to record them. The reason for this is that a note is a written agreement, while the amount in an account is subject to dispute even though it may be supported by business forms. Thus the account with James Atkin may show a debit balance of \$250.00, but this does not mean that Mr. Atkin will pay \$250.00 because there might have been an error in recording the amount. On the other hand, if James Atkin has given the business a written promise to pay \$250.00 on a definite date, this is not subject to dispute as he will be required to pay this amount.

(Concluded on page 127.)

*The nature of the property will determine the method of taking care of the decrease in value due to wear and tear resulting from use; this is explained in a subsequent chapter under the subject of "Depreciation."

Should the written promise remain in possession of the business and errors develop which change the amount, credit might be allowed for these errors; but, if the business has sold the note, the holder will expect Mr. Atkin to pay the full amount. For the reasons stated, it is customary to record the amount of each written promise (note or acceptance) in which money is to be paid to the business, in a "Notes Receivable" account, and each written promise (note or acceptance) in which the business promises to pay money, in a "Notes Payable" account.

NOTES RECEIVABLE ACCOUNT

§ 102. The Purpose of this Account is to show the amount due to the business as evidenced by written obligations; these include notes (§ 86) signed by others and time drafts (§ 92) accepted by others.

Debit the Notes Receivable Account:

¶ 1. For the face of each note or acceptance* owned by the business at the beginning, and for the face of each note or acceptance* received during the operations of the business.

Credit the Notes Receivable Account:

¶ 2. For the face of each note or acceptance* when collected, discounted†, or transferred. Partial payments are indicated as in § 27, ¶ 5.

¶ 3. *The Balance of the Notes Receivable Account* shows the value of the notes and acceptances belonging to the business as the result of transactions completed with notes and drafts receivable. It is shown on the Balance Sheet as a current asset, and is usually listed between "Cash" and "Accounts Receivable."

NOTES PAYABLE ACCOUNT

§ 103. The Purpose of this Account is to show the amount owed by the business as evidenced by written obligations; these include notes (§ 86) signed by the business and time drafts (§ 92) accepted by the business.

Debit the Notes Payable Account:

¶ 1. For the face of each note or acceptance when paid. Partial payments are indicated as in § 28, ¶ 5.

Credit the Notes Payable Account:

¶ 2. For the face of each note or acceptance‡ owed by the business at the beginning, and for the face of each note signed or time draft accepted‡ by the business during its operations.

¶ 3. *The Balance of the Notes Payable Account* shows the value of the notes and acceptances owed by the business as the result of transactions completed with notes and drafts payable. It is shown on the Balance Sheet as a current liability, and is usually listed before "Accounts Payable."

§ 104. Interest is the use of money. The premium paid or received for this use is also referred to as interest. To illustrate: A borrowed \$100.00 from B on twelve months' time, and at the end of the year paid \$106.00, the principal and the interest. A paid \$6.00 for the use of the money borrowed, hence this amount is an interest cost to him; B received \$6.00 for the use of the money loaned, hence this amount is interest earned for him.

*Trade acceptances are usually shown in an account with Trade Acceptances Receivable; this is discussed in a subsequent chapter.

†If notes and drafts discounted are credited to a Notes Receivable Discounted account, Notes Receivable is not credited until they are paid; this is discussed in a subsequent chapter.

‡Trade acceptances are usually shown in an account with Trade Acceptances Payable; this is discussed in a subsequent chapter.

¶ 1. *Discount* is interest paid in advance, that is, the one who borrows the money pays the lender the interest at the time the loan is made and not at its maturity. It is customary with many banks to deduct the interest from the face of notes received as evidence of loans; the borrower receives cash or credit in his pass book for the proceeds. The borrower may, if he desires, give the bank his check for the interest, in which case he receives credit for the face of the note.

To illustrate: A borrowed \$500.00 from his bank, giving his note payable in ninety days from date, as evidence of the obligation. The bank charges him eight per cent interest. When he presents his note for credit, he will either receive credit for \$490.00, or give the bank his check for \$10.00 and receive credit for \$500.00. In either case the \$10.00 is regarded as interest. Interest paid in advance may be termed "discount," but it is better to consider all amounts paid for the use of money as "interest," whether the amounts are paid at the time the debt is created or at the time it is paid.

¶ 2. *Legal Rate.* To prevent unreasonable charges for the use of money, the various states have enacted laws fixing the rate that may be collected; this is termed the legal rate. Some states provide that a higher rate may be collected if mentioned in the contract; this is termed the contract rate. Both the legal and the contract rate are based on a fixed charge for one year; thus 6% indicates that \$6.00 may be collected for each \$100.00 for one year.

¶ 3. *Time.* The time is the number of days, months or years for which interest is to be calculated. In the case of a note the time is stated. A note dated March 10, due in 90 days, would be due June 8. The same note if payable in three months would be due June 10.

¶ 4. *Method of Calculating Interest.* A business year is regarded as 360 days—12 months, 30 days in each month. Since 6% is the legal rate in the majority of states, and it is an aliquot part of 60, there are many rules for calculating interest based on this. One of the simplest methods, especially where the time is less than 100 days, is as follows: multiply the principal with the decimal place moved three places to the left by the result obtained by dividing the number of days by six. The result is the interest at 6%.

To illustrate: Calculate the interest on \$942.75, for 48 days, at six per cent. Move the decimal point three places to the left, multiply this amount by 8 (48 divided by 6). The result is 754.200. As there are five decimal places in the multiplicand, there must be five decimal places in the product, which gives the interest, \$7.54. The fraction to the right of this is less than one-half, and is not used. If it had been one-half or more, the interest would have been \$7.55. Do not drop the fraction until the final result is obtained.

When the rate of interest is not 6%, divide the amount of the interest at 6% by six; this gives the interest at 1%. Multiply this by the given rate, and the result is the interest on the given amount at the given rate. To illustrate: Calculate the interest on \$368.95 for 48 days, at 8%: \$368.95 with the decimal point moved three places to the left is .36895. $48 \div 6 = 8$; $.36895 \times 8 = 2.95160$ (interest at 6%). $2.95160 \div 6 = .49193$ (interest at 1%); $.49193 \times 8 = 3.93544$ or \$3.94, interest on \$368.95 for 48 days, at 8%.

§ 105. *Accounts with Interest.* Interest cost and interest earned should be recorded in separate accounts. While all the transactions with interest could be recorded in one account, debiting it with interest cost and crediting it with interest earned, yet it is better to keep two accounts because the balance of the one account would not mean anything to the owner of the business. Where the transactions with interest are recorded in two accounts, the information given the owner on the Statement of Profit and Loss will show the net interest cost to him separate from the net interest earned; if the transactions had all been recorded in one account, the balance would not show this information, but only the difference between the total interest cost and the total interest earned. For the reason stated it is customary to record interest transactions in which the business gives cash or other property for interest, in an account with "Interest Cost," and those transactions in which the business receives cash or other property for interest, in an account with "Interest Earned."

INTEREST COST ACCOUNT

§ 106. **The Purpose of this Account** is to show the cost of interest to the business, made necessary by the business having to pay for the use of money.

Debit the Interest Cost Account:

- ¶ 1. For interest on accounts and notes payable.* Cash is usually credited, but some other asset might be given in payment of interest.

Credit the Interest Cost Account:

- ¶ 2. For any deductions which reduce the cost of interest as shown by the debit side.

¶ 3. *The Balance of the Interest Cost Account* shows the net cost of interest to the business. It is shown on the Statement of Profit and Loss as Interest Cost under the caption "Deductions from Income."

INTEREST EARNED ACCOUNT

§ 107. **The Purpose of this Account** is to show the returns from interest to the business, resulting from others paying for the use of money which belongs to the business.

Debit the Interest Earned Account:

- ¶ 1. For any deductions which reduce the income from interest as shown by the credit side.

Credit the Interest Earned Account:

- ¶ 2. For interest income from accounts and notes receivable.† Cash is usually debited, but some other asset might be received for interest earned.

¶ 3. *The Balance of the Interest Earned Account* shows the net returns from interest to the business. It is shown on the Statement of Profit and Loss as Interest Earned under the caption "Other Income."

SUMMARY

§ 108. **General Rule for Debits and Credits.** Debit the account which represents the value received and credit the account which represents the value parted with. This rule may be more explicitly expressed as follows:

Debit the Account which represents:

- (a) The cash received or property purchased.
- (b) The person to whom cash is paid or property is sold on account.
- (c) The service for which cash or other property is given in payment.

Credit the Account which represents:

- (d) The cash paid or property sold.
- (e) The person from whom cash is received or property is purchased on account.
- (f) The service for which cash or other property is received.

The above rule was not given at the beginning because the student might have felt obligated to memorize it, and this is not desirable. It is given at this time in order that the student may correlate it with the preceding discussion and his knowledge of the principles gained from the exercises and practice set.

In the formula given, (a) applies to ¶1 under the discussion of the Cash, Purchases, Notes Receivable, and Furniture and Fixtures accounts; (b) to ¶1 under the discussion of the Accounts Payable and Accounts Receivable accounts,

(Concluded on page 130.)

*Accrued interest on accounts payable, notes payable, and bonds payable will be discussed later.

†Accrued interest on accounts receivable, notes receivable, and bonds owned by the business will be discussed later.

*

and to ¶ 2 of the Capital account; (c) to ¶ 1 of the Expense, Interest Cost, and Interest Earned accounts; (d) to ¶ 2 of the Cash, Sales, and Furniture and Fixtures accounts; (e) to ¶ 2 of the Accounts Receivable and Accounts Payable accounts, and to ¶ 4 of the Capital account; (f) to ¶ 2 of the Expense, Interest Cost and Interest Earned accounts.

The student should learn to record transactions with the same ease that the driver operates an automobile. He can do this only by constant practice. The purpose of the exercises in connection with the discussion and the practice set was to afford this practice. The first thought in the mind of the bookkeeper when a transaction is presented to him should be the value received and the value parted with; the second, the accounts that represent these values; the third, the book of account in which to make the record; and the fourth, the process of recording so as to show these facts.

OUTLINE OF ACCOUNTS

§ 109. The Outline below includes those accounts which have been discussed in the preceding chapters. These are classified as current assets, fixed assets, current liabilities, capital, income, operating, and special profits and losses.

Current Assets.....	{ Cash Merchandise Inventory Notes Receivable Accounts Receivable	Used in the preparation of the Balance Sheet
Fixed Assets.....	{ Furniture and Fixtures	
Current Liabilities.....	{ Notes Payable Accounts Payable	Used in the preparation of the Statement of Profit and Loss
Capital.....	{ Proprietor, Capital	
Trading (Income).....	{ Sales Purchases Merchandise Inventory	
Operating (Cost).....	{ Expense	
Special Profit and Loss.	{ Interest Earned Interest Cost	

Current Assets are those assets which are in the form of cash or which will be converted into cash in the regular operations of the business; they are usually the result of transactions in connection with the purchase and sale of the commodities in which the business deals.

Fixed Assets refer to the property purchased for use in the business.

Current Liabilities are those liabilities which will have to be paid within a short time after they are incurred; they usually represent debts incurred in connection with the purchase of merchandise.

Capital refers to the investment of the proprietor.

Trading or Income Accounts are those accounts which show the profit resulting from the operations of the business. Each business is organized to make a profit through certain specific operations, as selling merchandise (mercantile business), selling service (telephone business), etc.

Operating Expenses refer to the cost of operating the business, which includes rent, heat, light, telephone service, salaries, etc.

Special Profits and Losses refer to those profits and losses which occur outside of the regular operations of the business and may occur in one fiscal period but not in another.

Exercise No. 50, Notes and Drafts.

Record in journal form the following transactions in regard to notes and drafts completed during the months of January—June by James Whitcomb, a dealer in farm implements:

- Jan. 5. Sold Jonathan Rigden, Centerville, one tractor, \$850.00. Received in payment his check for \$250.00 and three notes for \$200.00 each, due in three, six, and nine months respectively, with interest at 6% from date.
10. Purchased from the Orrville Mfg. Co., Mansfield, on 90 days' time, merchandise per purchase invoice dated January 7, \$1,295.60.
15. Sold Robert Shook, Scottsboro, on 30 days' time, farm implements per sales invoice rendered, \$425.00.
22. Accepted the Orrville Mfg. Co.'s 90-day draft for \$1,000.00 on account of purchase of the 10th.
25. Borrowed \$800.00 from the bank on Mr. Whitcomb's 60-day note, bearing interest at 6%. Received credit in the pass book for the face of the note.
31. Sold S. W. Walker, Clinton, on 30 days' time, farm implements per sales invoice rendered, \$209.75.
- Feb. 1. Discounted at the bank the three-months note received from Jonathan Rigden January 5. Received credit in the pass book for the face of the note.
14. Received from Robert Shook in settlement for the merchandise sold him January 15, his note for \$300.00, due in three months, with interest, and his check for the balance of the account plus three months' interest on the note at 8%.
28. Sold W. H. Miller, City, one tractor, \$1,050.00. Received in payment his check for \$150.00 and three notes for \$300.00 each, due in three, six, and nine months respectively, with interest at 6% from date.
- Mar. 8. Drew a 30-day draft through the Union Bank at Clinton on S. W. Walker for the merchandise sold him January 31. Sent the draft to the bank for acceptance, with instructions to retain it for collection if accepted.
15. Discounted at the bank the three- and six-months notes received from W. H. Miller February 28. Received credit in the pass book for \$588.00, the proceeds of these notes after the bank deducted interest.
16. Received notice from the Union Bank at Clinton that the draft drawn on S. W. Walker March 8 was accepted March 11, and the bank would hold the draft for collection at maturity per our instructions.
24. Gave the bank in payment for the note discounted January 25 a new 60-day note for \$500.00, with interest from date, and our check for the balance of the old note and interest on same at 6% for sixty days.
25. Purchased from the Orrville Mfg. Co., Mansfield, on 90 days' time, merchandise per purchase invoice dated March 20, \$2,546.52.
- April 1. Received from Jonathan Rigden a check for \$203.00 in payment for his three-months note given January 5 and interest, the bank having failed to send him a notice.
3. Sold M. B. Adams, Uniontown, one thresher with full equipment, \$1,500.00. Received in payment \$500.00 cash, a 60-day note for \$500.00, and a 90-day note for \$500.00, each with interest at 6%.
14. Received a cashier's check from the Union Bank at Clinton for \$208.50 in payment for the draft accepted by S. W. Walker, less \$1.25, their charges for collection.

- Apr. 20. Gave our bank a check for \$498.58 and the 60-day note received from M. B. Adams April 3, in settlement for the 90-day draft drawn by the Orrville Mfg. Co. and accepted by us January 22; the bank accepted the Adams note at its present value, \$501.42 (face value, \$500.00, plus interest to date, \$1.42).
25. Received a check from W. H. Miller in payment for the nine-months note received February 28, for the face of the note and interest from the date of the note up to and including April 24.
- May 1. Gave the Orrville Mfg. Co. the 90-day note received from M. B. Adams April 3, our note for \$1,000.00 due in ninety days, our note for \$1,000.00 due in four months, and our check for \$374.79 in payment for balance due on the purchase invoice of January 10 and in full of purchase invoice of March 25, and interest on our notes at 6% from date; the Orrville Mfg. Co. accepted the Adams note at its present value, \$502.33 (face value, \$500.00, plus interest to date, \$2.33).
10. Sold C. H. Becker, Lexington, one thresher and outfit, \$1,800.00. Received in payment his check for \$300.00, and three notes for \$500.00 each, due in 30, 60, and 90 days respectively, with interest at 6%.
15. Purchased from the Orrville Mfg. Co., Mansfield, on 90 days' time, merchandise per purchase invoice dated May 12, \$1,365.90.
18. Sold Robert Shook, Scottsboro, one tractor, \$850.00. Received on account of this sale his check for \$150.00 and a note for \$600.00 in his favor, signed by B. A. Small, dated March 7 and payable in ninety days. Allowed him credit for the proceeds of the note, which include the face and interest at 6% from the date of the note to May 18. The balance of this account is to be paid within thirty days.
- June 1. The bank notified us that the three-months note for \$300.00 received from W. H. Miller February 28 and later discounted, has not been paid. Gave the bank our check for \$4.50 interest and our note for \$300.00, with interest at 6% from date, payable in thirty days.
- Debit the account with W. H. Miller for the face of the note plus the interest, and credit Notes Payable and Cash.
3. Received from Robert Shook a 3-months note for \$200.00, dated June 2, and a check for \$104.00 in payment for 3-months note dated February 14, and interest on the new note at 8% from date to maturity.
12. Received from C. H. Becker his check for \$502.50 in payment for 30-day note dated May 10 and interest at 6% on the same from date of the note up to and including June 9.

Exercise No. 51, Sight Draft.

*Dean & Dean**Salt Lake City, Utah*

1912				1912			
June	1	C. 9	561 80	May	1	30 days	P. 1 561 80
July	15	C. 11	2 30 0	June	15	30 "	P. 2 2 894 20
Aug.	1	C. 13	2 20 0	Aug.	5	30 "	P. 4 2 647 50
	15	C. 15	2 394 20	Sept.	9	30 "	P. 5 4 394 40
Sept.	4	C. 15	2 20 0	Oct.	16	30 "	P. 6 7 586 5

John C. Franklin of Scranton, Pa., owes Dean & Dean of Salt Lake City as shown by the account (in the ledger of John C. Franklin) in the illustration above. Dean & Dean have drawn the draft at the top of page 133 in settlement

of the past due items of August 5 and September 9, with interest at 6% from the due date up to and including the date of the draft.

\$892.91 Salt Lake City, Utah, Nov. 1, 192
At sight Pay to
the order of Union Natl Bank, Scranton
Eight Hundred Ninety-two ⁹¹/₁₀₀ Dollars
Value received, and charge the same to account of
To John C. Franklin Dean & Dean
No. 34 Address Scranton, Pa. By C. Ernst

The student is required to show the following:

- (1) Interest calculations made to approve the amount of the draft.
- (2) The entry in journal form that the drawee would make when he paid the draft.

Exercise No. 52, Note Transferred.

Charles Langan

Cincinnati, O.

192				192			
Mar.	2	15 days	L. 1	Mar.	17	L. 2	
Apr.	5	15 "	L. 3	Apr.	20	L. 4	
	28	15 "	L. 4	May	13	L. 6	a 50
May	8	15 "	L. 5		23	L. 6	L 50
June	5	15 "	L. 7				
July	2	15 "	L. 9				

The check in the illustration below and the note at the top of page 134 were received in full payment for the account shown in the illustration above. The customer pays interest on the past-due items from their due date to the date of settlement as shown by the date of the check; he is allowed the accrued interest in the note from date up to and including the date of settlement.

Cincinnati, August 1, 192 No. 480
The Central Trust Company ¹³⁻³⁹
Pay to the order of John C. Franklin \$98.38
Ninety-eight ³⁸/₁₀₀ Dollars
In full of account Charles Langan



\$250.00 Columbus, O., June 2, 192
Ninety days after date I promise to pay to
the order of Charles Langan
Two Hundred Fifty and no/100 Dollars
1st City National Bank, Columbus
For Value received, without any relied whatever from Valuation or Appraisalment Law
with 6 per cent. interest from date until paid and Maturity Fees
No 50 Due Aug. 31 Arthur Phillips

The student is required to show the following:

- (1) Interest calculations made to approve the amount of the check.
- (2) Endorsement to transfer the note.
- (3) The entry in journal form required to close the account and show a record of the interest and note.

Exercise No. 53, Time Draft.

Edwin B. Norris

Stockton, Calif

192					192				
Mar.	5	90 days	\$2	261 50	May	1		\$6	u 200
	10	60 "	\$5	2692 30		15		\$6	u 200
Apr.	15	60 "	\$31	30915					

The draft in the illustration below was drawn in settlement for the balance of the sale made March 10 as shown by the debit to the account with the customer in the illustration above. Interest at 6% for thirty days on the balance due was included in the face of the draft.

\$293.76 Portland, Oregon, June 1, 19
At thirty days sight Pay to the
Order of First National Bank, Stockton
Two Hundred Ninety-three and 76/100 Dollars
Value received and charge to account of
To Edwin B. Norris Hodge & Co
No 52 Stockton, Calif By B. M. Reed

The student is required to show the following:

- (1) Interest calculations made by the bookkeeper when he ascertains the amount of the draft.

(Concluded on page 135.)

- (2) The stub from which the draft was detached.
 (3) The entry in journal form made by the bookkeeper who drew the draft.

Exercise No. 54, Sight Draft, Note, and Check.

The illustration below shows three ledger accounts which appear in the ledger of the Cochran Mfg. Co., Toledo, Ohio:

Auto Radiator Repair Co.

192				192			
Jan.	7	30 days	L. 1	264 95	Jan.	10	C. 2 150
	12	30 "	L. 4	117 38		16	C. 2 100
Feb.	16	30 "	L. 9	98 56	Feb.	1	C. 4 50
	28	30 "	L. 12	365 40	Mar.	1	C. 6 150
Mar.	15	30 "	L. 16	275 36	Apr.	1	C. 8 100

A. Strange & Co.

192				192			
July	18		C. 3	416 40	May	19	60 days P. 1 416 40
Sept.	1		C. 7	150	June	17	30 " P. 4 211 85
Oct.	1		C. 9	200		22	60 " P. 5 562 90
Nov.	1		C. 11	200	July	17	60 " P. 11 375 50
Dec.	1		C. 13	300	Aug.	29	30 " P. 27 459 65

The R. H. Donnelley Company.

192				192			
Jan.	9	30 days	L. 2	416 21	Feb.	8	C. 5 200
	31	30 "	L. 7	509 27	Mar.	1	C. 7 300
Feb.	12	60 "	L. 14	391 90	Apr.	1	C. 9 200
Mar.	9	60 "	L. 31	478 62	May	1	C. 11 500
Apr.	11	30 "	L. 49	629 50	June	1	C. 13 400
	29	60 "	L. 59	418 50			

	\$1000 ⁰⁰	Toledo, Ohio,	MAY 1-192	191
	Six months after date I promise to pay to			
	the order of The R. H. Donnelley Company			
	One Thousand and ⁰⁰ / ₁₀₀ Dollars			
	at Second National Bank			
Value received with 6% interest from date.				
No. 4	Due NOV 1-192	R. B. Mattingly		

(Concluded on page 136.)

The following is required:

(1) Draw at sight on the Auto Radiator Repair Co. for the balance due June 1st, including interest on all past due items, less interest on the payments up to and including the date of the draft. Make the draft payable to one of the banks in the city in which the school is located, it being assumed that this city is the address of the Auto Radiator Repair Co.

(a) Show in journal form the entry made by the bookkeeper for the Cochran Mfg. Co. to record the draft and interest.

(2) Prepare a sixty-day interest-bearing note in favor of A. Strange & Co., payable at the Jackson National Bank, for the balance due January 1, including interest on all purchases from the due date up to and including January 1, and allowing interest on all payments from date up to and including January 1.

(a) Show in journal form the entry made by the bookkeeper for the Cochran Mfg. Co. to record the note and interest.

(3) July 1 R. H. Donnelley of the R. H. Donnelley Company wishes to transfer the note shown below their ledger account, and give the company's check in settlement for the account. He is to pay interest on each past-due item and to be allowed interest on each payment from date up to and including July 1, also to be allowed credit for the accrued interest in the note.

(a) Write the check for Mr. Donnelley to sign.

(b) Show the calculations necessary to ascertain the amount of the check.

(c) Show in journal form the entry necessary to close the account and to record the value of the note and interest.

Exercise No. 55, Journal Entries, Notes and Drafts.

Journalize the following transactions using the numbers as the days of the current month, and present the work to the teacher for approval.

1. Gave Simpson Bros. our sixty-day note, dated today, for \$250.00, to apply on account.

2. John Howard gave us his thirty-day note, dated today, for \$128.36, in full of account.

3. Sold James Morgan, on his note for thirty days, 200 bu. oats at 49 cents.

4. Received \$150.00 from A. C. Williams, in payment of his note due today.

5. Accepted Martin Bros.' ten-day draft for \$329.86, in part payment of account.

6. Received \$286.48 from M. J. Thompson, on his note, due today.

7. Bought from the Hall Safe & Lock Co., for \$200.00, one fireproof safe, and gave in payment check for \$50.00, and our note due in sixty days, for \$150.00.

8. Drew a ten-day draft on A. C. Weaver for \$150.00, the balance he owes us, and sent the draft to Arnold Bros., to apply on account we owe them. Mr. Weaver has accepted the draft.

Transactions of this nature are not fair to the creditor, but when they occur, the one who draws the draft (drawer) debits the account with the creditor to whom the draft is given (payee), and credits the account with the customer on whom it is drawn (drawee), if the draft is accepted or paid. The drawee debits the account with the drawer, and credits the Notes Payable account if he accepts the (time) draft or the Cash account if he pays the (sight) draft. The payee debits the Notes Receivable account if the (time) draft is accepted or the Cash account if the (sight) draft is paid, and credits the account with the drawer.

9. Bought from Payne & Hart, merchandise per invoice of this date, \$869.48. Gave in payment our ninety-day note, dated today.

10. James Milligan gave us his note for \$125.00, due in thirty days from today to apply on account.

11. Received from R. M. Upman, a ten-day draft on Hall Bros., for \$150.00, to apply on an account Upman owes us. Hall Bros. have accepted the draft.

12. Purchased from Remington Typewriter Co., one No. 11 Remington typewriter, for \$100.00. Gave in payment our check for \$25.00, and three notes for \$25.00 each, due in thirty, sixty and ninety days.

This transaction requires an entry with one debit and four credits—one for the cash paid and one for each note.

13. Drew a ten-day draft on Yeager Bros. for \$354.81, the amount they owe us, and sent it to Dawson & Perry to apply on account. (See instructions in No. 8.)

14. J. J. Darling gave us his note for \$175.00 due in sixty days from today, and his check for \$86.14, in full of account he owes us.

15. Bought from the Consolidated Milling Company, merchandise per invoice of this date, \$689.28. Gave in payment a note which we hold (Notes Receivable) for \$127.65, our note due in thirty days for \$400.00, and our check for the balance.

16. Borrowed \$400.00 from the bank on our thirty-day interest-bearing note for this amount.

17. Accepted Marblehead & Co.'s draft at ten days for \$681.29, in full of account.

18. Paid Donaldson Bros. \$250.00 in payment of a note which is due today.

19. Our note for \$500.00 is due at the bank today. Gave them a check for \$250.00, and a new note with interest for \$250.00 in settlement of this.

20. Accepted Martin Bros.' ten-day draft for \$150.00, to apply on account.

21. Paid our note for \$200.00 due today.

22. Our note for \$800.00, in favor of Stillman Bros., is due today. We have settled the same by giving them our check for \$300.00, and two interest-bearing notes for \$250.00 each, due in thirty and sixty days, respectively.

23. Robert Davis owes us a note for \$627.65, which is due today. He settles the same by giving us his note for \$300.00, a note that has been transferred to him for \$127.65 which we owe, and his check for the difference.

24. A. L. Day owes us \$582.65. He settles the account as follows: his thirty-day note for \$250.00, our note for \$210.00 (Notes Payable) which he holds, and his check for \$122.65.

25. We owe Anderson Bros. \$427.55. They accept our check for \$127.55, and three notes of equal amount dated today, due in thirty, sixty and ninety days, in full of account.

RADIO SET

This is a practice set without vouchers, and consists of the transactions for a period of two months performed by Robert A. McFarland who is engaged in the radio supply business. The transactions are separate from the text and are included with the books of account necessary to record them. The purpose of this set is to provide a review of the principles discussed in the text and in the W. H. Goodwin practice set. The student will follow the teacher's instructions in regard to the completion of this set.

QUESTIONS

1. Under what conditions would the cost of a desk be debited to the Purchases account?
2. Under what conditions would the cost of a desk be debited to the Furniture and Fixtures account?
3. W. H. Banks, owner of Banks' Drug Store, rented a typewriter on January 1 for one year at a rental of \$3.00 per month. What accounts would his bookkeeper debit and credit when the monthly rent was paid?
4. January 1 of the next year Mr. Banks purchased a new typewriter for \$100.00 cash, and on December 31 of the same year he sold it for \$75.00 cash. (a) What accounts would his bookkeeper debit and credit when the typewriter was purchased? (b) What accounts would his bookkeeper debit and credit when the typewriter was sold?
5. How much did Mr. Banks save by owning his own typewriter?
6. If he had not sold the typewriter December 31, should he have considered it still worth \$100.00?
7. If he wished to show that it had decreased in value, could you suggest a means of doing this?
8. Why should the credit to the Furniture and Fixtures account show cost and not selling price?
9. If a desk which has been purchased for sale is transferred from stock for use in the office, what accounts will be debited and credited?
10. Would an automobile truck used for delivering merchandise sold be regarded as one of the fixed assets of the business?
11. If the business buys a safe for \$400.00 and pays freight \$50.00, will the cost of the safe shown in the Furniture and Fixtures account be the cost of the safe at the factory or this cost plus the freight?
12. If fixtures belonging to the business are destroyed by fire, will the insurance be adjusted on the cost value of the same or the present value?
13. What is the legal rate of interest in your home state?
14. Does the law of your state permit the collection of a rate higher than the legal rate?
15. Explain the difference between interest and discount.
16. In what respect does the Interest Cost account resemble the Expense account as they both relate to the operations of the business?
17. When is interest a cost to the business?
18. When is interest an income to the business?
19. Why does the law limit the income from interest when it does not limit the income from the operations of a business?
20. If a customer owes the business \$500.00 which is due, and gives his note for this amount; due in ninety days, should he be required to pay interest? Why?
21. (a) What is the due date of a note dated May 9 and payable ninety days after date? (b) What is the due date of a note dated May 9 and payable three months after date?
22. Why is the interest on a note for \$169.27 for sixty days at 6%, \$1.69?
23. Explain the difference between current assets and fixed assets and the reason for this difference.
24. Explain the difference between the profit on merchandise sold in a mercantile business, and the profit resulting from interest earned.
25. What is the first thought of a bookkeeper when a business form representing a transaction is given to him? the second thought? the third? the fourth?

Appendix A

SINGLE ENTRY BOOKKEEPING

The Purpose of this Appendix is to explain and illustrate Single Entry bookkeeping, sometimes referred to as a method of keeping books. The information given will be of assistance to the student who may be required to keep books for one who thinks there is a Single Entry method; it will also be useful if the student is called upon to change from this so-called method to Double Entry.

§ 110. **Single Entry Bookkeeping.** Bookkeeping is the systematic recording of business transactions as explained in § 8. When the values received and the values parted with in each transaction are recorded, the method is usually referred to as "Double Entry." Single Entry bookkeeping is best defined as any method that is not Double Entry. This means that in Double Entry bookkeeping the values received and the values parted with are always recorded, but in Single Entry the values received and the values parted with may be recorded in some transactions, but in others only the values received or the values parted with are recorded.

§ 111. **Comparison.** In Single Entry the record may be made according to the wishes of those interested, and any desired accounts kept; in Double Entry the record and accounts kept must conform to certain principles, which can not be changed; the name of an account might be changed, but its real meaning must remain the same. In Single Entry, the bookkeeper has no check on his accuracy in posting, footing accounts in the ledger, and making the Statement of the Business; in Double Entry he proves the postings and footings by the Trial Balance and the net profit through the Balance Sheet and Statement of Profit and Loss.

The advantages of Double Entry are so apparent that this method is used by every up-to-date business man who employs a bookkeeper, and by many who keep their own books. The reason Single Entry is used in many cases is that the one who keeps the books knows nothing of the many advantages of Double Entry.

§ 112. **Books of Account.** Any book used with the Double Entry method may be used with Single Entry; but the day book, cash book, and ledger are the most popular with those who claim to "know" the latter method. Of course, they do not know any method, but only know what they want their books to show, and can get the desired results by using these three books.

§ 113. **Day Book.** This is a book of original entry. All transactions, except those in which cash is received or paid, are entered in this book in the order in which they occur. The two money columns do not indicate debits and credits, hence it is necessary to write Dr. and Cr. (abbreviation of debit and credit) after the name of the account. This shows to which side of the account in the ledger the amount is to be posted. Amounts to be posted are placed in the second column on the same line as the name of the account. Illustration No. 152 shows the form of day book to be used.

§ 114. **Single Entry Cash Book.** Any desired form of ruling may be used. The form given in Illustration No. 153 shows one very popular with those who keep a cash book in connection with a Single Entry set of books. The ruling is similar to the ordinary journal; receipts are entered in the first column, and payments in the second column. When the cash book is ruled at the end of the month, the balance is entered in the credit column, the word "Balance" written at the left, the two columns ruled, and the balance brought down, as in Illustration No. 153.

§ 115. **Ledger.** This book may be similar to any ledger used with a Double Entry set of books; that is, it may have the regular ledger ruling or any special ruling adapted to the needs of the business. In every case it must be ruled with

two money columns, one for the debit amounts, and one for the credit amounts. Some blank book manufacturers make a book which is labeled "Single Entry Ledger." This is ruled like the day book and provided with an index. This form is used when the day book and cash book are omitted, and the transactions are entered direct in the ledger.

December 2, 192

W. H. La Rue	Cr.	1250
Notes Payable (60 days)	Cr.	500
Notes Payable (90 days)	Cr.	500
Bought stationery stock for \$2250 ⁰⁰		
Paid cash \$1000 ⁰⁰ ; gave two notes, \$500 ⁰⁰ each, due in 60 and 90 days; balance to be paid before January 1st.		
3		
Bellenap Stationery Co., Louisville.	Cr.	150
Bought merchandise on account per invoice of this date		
3		
C. E. McClure, City	Dr.	4250
1 Section Base and Top Y & E. Tile	25	
1 gross Note Books	1750	

Illustration No. 69, Single Entry Day Book.

Cash Book

			Receipts	Payments
19				
Dec.	1	C. W. Ogden, Cap. Investment	1500	
	2	W. H. La Rue Part payment stock		1000
	5	✓ Gouffon Transfer Co. Freight and drayage		1487
	6	W. H. La Rue On account		150
		✓ Expense Employees' wages		6540
		✓ Sales Sundry cash sales	20409	
	10	University School In full of account	175	
	11	✓ Expense Light, phone and stamps		2460
	13	Graham Paper Co. In full of account		19642
		✓ Discount On above	589	
	31	✓ Gouffon Transfer Co. Freight and drayage	382533	6275
		✓ Balance		272573
				109960
19			382533	382533
Jan.	1	✓ Balance	109960	

Illustration No. 70, Single Entry Cash Book.

*The break indicates a number of entries omitted.

TRANSACTIONS FOR DECEMBER.

Record the following transactions in the Single Entry day book and cash book, and post to the ledger when instructed. Accounts will be kept with Notes Receivable, Notes Payable, C. W. Ogden Capital, persons from whom merchandise is purchased on account, and persons to whom merchandise is sold on account.

1. C. W. Ogden invests \$1,500.00 in the retail stationery and office supplies business.

Enter in the cash book as in Illustration No. 70.

2. Bought from W. H. LaRue, City, stock of stationery and office supplies for \$2,250.00, paying cash \$1,000.00, two notes of \$500.00 each, due in 60 and 90 days, balance to be paid before January 1st.

Enter in the day book and cash book as in Illustrations Nos. 69 and 70.

3. Bought from Belknap Stationery Co., Louisville, on account, stationery per invoice of this date, \$150.00.

Enter in the day book as in Illustration No. 69.

Sales on account: C. G. McClure, City, 1 section, base, and top, Y. & E. files, \$25.00; 1 gross note books, \$17.50. University School, University Park, 1 multigraph, \$170.00; 1 doz. ribbons, \$5.00.

Enter in the day book as in Illustration No. 69.

4. Bought from Graham Paper Co., St. Louis, stationery per invoice of the 3d, \$196.42; terms, 3/10, n/30.

The terms indicate that 3% may be deducted if payment is made within ten days.

5. Paid Gouffon Transfer Co. \$14.87, freight and drayage on above goods.

Enter in the cash book as in Illustration No. 70. No account is kept with Freight and Drayage, hence the check mark (✓) in the L. F. column.

6. Sale on account: C. J. McDaniels, City, 1 ledger, \$3.50; 1 doz. pencils, 75c; 2 boxes typewriting paper at \$1.00; 1 dictionary, \$14.00.

Paid W. H. LaRue \$150.00 on account;

Paid employees' wages to date, \$65.40.

Cash sales to date, \$204.09.

Post the entries in the day book and cash book. Each amount in the second column of the day book is posted to the debit or credit side of the account written on the same line with it; the debit or credit is indicated by "Dr." or "Cr." Each amount in the first column of the cash book is posted to the credit side of the account written on the same line with it, unless it has a check mark in the L. F. column; each amount entered in the second column is posted to the debit side of the account written on the same line with it, unless it has a check mark in the L. F. column. Allow one-fifth of a page for each account.

8. Bought from American Stationery Co., Cincinnati, merchandise per invoice of the 6th, \$264.75; terms, 5/10, n/60.

9. Sale on account: R. R. Oglesby & Co., Hamilton, 1 typewriter, \$100.00; 1 desk, \$35.00; 5 gross note books at \$14.00; 2 sections Y. & E. files with top and base, \$64.00.

10. Received \$175.00 from University School in full of account.

11. Paid electric light bill, \$13.60; phone rent, \$6.00; and stamps, \$5.00.

Sales on account: Ormendorff Bros., City, 1 set of Dickens, \$70.00. City Electric Co., City, 1 gross tablets, \$17.00; 3 sections Y. & E. files at \$14.00; 1 desk, \$36.00; 5 ink wells at 25c.

12. Bought from Yawman & Erbe Mfg. Co., Rochester, merchandise per invoice of the 10th, \$136.42; terms, 60 days. Bought from Johnston Bros., City, on account, 5 gross mucilage at \$2.50.

13. Paid Graham Paper Co. amount due, less discount.

Enter in the cash book as in Illustration No. 70.

(Continued on page 142.)

(December Transactions—Continued from page 141.)

13. Sales on account: M. B. Arnstein, City, 2 gross tablets at \$17.75; 1 desk, \$39.50; 2 sections Y. & E. files at \$14.00. Bean, Waters & Co., City, 3 gross tablets at \$14.00; 1 box typewriting paper, \$1.00.

Paid cash as follows: C. W. Ogden, private use, \$50.00; employees' salaries for the week, \$86.45; Gouffon Transfer Co., freight and drayage, \$32.65.

Cash sales to date, \$291.76.

Post from the day book and cash book.

15. Collected from the following parties: C. G. McClure, \$42.50; C. J. McDaniels, \$10.00; Ormendorff Bros., \$50.00; City Electric Co., \$70.00.

Sales on account: C. G. McClure, 5 gross tablets at \$14.00; 1 desk, \$57.50. H. O. Nelson, City, 1 typewriter, \$100.00; 1 gross penholders, \$5.00; 5 boxes typewriting paper at \$1.00; 10 lbs. writing paper at 25c.

16. Paid American Stationery Co. \$175.00 on account.

This is subject to 5% discount as per terms. Be sure to debit them with the correct amount.

Sale on account: Central Business College, City, 5 gross note books at \$14.00; 1 gross tablets, \$30.00; 1 gross penholders, \$4.00; 8 gross ink at \$3.75.

17. R. R. Oglesby & Co. gave us their note due in 30 days for \$200.00 to apply on account.

Bought from Yawman & Erbe Mfg. Co., Rochester, merchandise per invoice of the 11th, \$1,254.78; terms, 60 days.

18. Sales on account: C. G. McClure, 3 typewriters at \$100.00; 1 gross pens, \$5.00; 1 doz. ribbons, \$7.50. W. R. Austin, Wilmington, 1 journal, \$6.00.

Bought from Graham Paper Co., stationery per invoice of the 15th, \$136.49; terms, 3/10, n/30.

19. Accepted Yawman & Erbe Mfg. Company's 60-day draft in full of invoice dated December 10th.

Paid W. H. LaRue \$50.00 on account.

Sales on account: Ormendorff Bros., 1 desk, \$35.00; 1 gross note books, \$18.00; 3 sections Y. & E. files at \$14.00. W. H. Pedigo, Danville, 1 desk, \$45.00; 1 chair, \$12.50; 3 gross tablets at \$17.50; 100 blotters, 25c.

20. Bought from Yawman & Erbe Mfg. Co., merchandise per invoice of the 18th, \$234.75; terms, 4/10, n/30.

Cash sales to date, \$408.50.

Withdrew \$75.00 for private use; paid employees to date, \$92.75.

Post from the day book and cash book.

22. Collected from customers as follows: M. B. Arnstein, in full; Bean, Waters & Co., in full; C. G. McClure, \$100.00; Central Business College, \$100.00.

Discounted R. R. Oglesby & Co.'s note at the bank, receiving credit for the face value, less \$3.00 discount.

Enter face of the note in the first, and discount in the second column of the cash book.

23. Sale on account: University School, 3 gross note books at \$17.00; 2 gross penholders at \$5.00; 5 gross pencils at \$4.00; 100 lbs. writing paper at 20c; 1 ledger, \$2.75.

Paid W. H. LaRue balance due him.

24. Bought from American Stationery Co., merchandise per invoice of the 22d, \$186.75; terms, 5/10, n/60.

(Concluded on page 143.)

(December Transactions—Continued from page 142.)

24. Sales on account: Central High School Supply Store, City, 2 gross journals at \$20.00; 2 gross ledgers at \$20.00; 5 gross note books at \$14.00; 10 gross penholders at \$5.00; 5 gross pencils at \$4.55; 2 gross ink at \$4.00. City Electric Co., 1 duplicator, \$75.00.

Sent Graham Paper Co. a check in full of account, less discount.

26. Central High School Supply Store settled their account in full, less 2%, per contract.

W. H. Pedigo gave us his note due in 30 days in full of account.

Paid Belknap Stationery Co., \$75.00 on account.

Bought from Standard Stationery Co., Cincinnati, merchandise per invoice of the 23d, \$62.75; terms, 60 days.

27. Sent Yawman & Erbe Mfg. Co. a New York Exchange in full of invoice dated the 18th, less 4% discount. The bank charges 50c for issuing the exchange. Sale on account: H. O. Nelson, 1 typewriter with special keyboard, \$105.00.

29. Received from H. O. Nelson a 60-day note in full of account.

30. Bought from Chatfield & Woods, City, merchandise per invoice of the 27th, \$169.25; terms, 3/10, n/60.

31. Cash sales to date, \$268.15.

Paid employees to date, \$86.27; rent for the month, \$50.00; Gouffon Transfer Co., bill for freight and drayage to date, \$62.75.

Post all entries to date, and make a Statement of the Business as explained in § 116 and Illustration No. 71 using the following inventories: Merchandise in stock, \$2,565.87; Office Equipment, consisting of desks, chairs, safe, etc., \$200.00. Close the ledger as explained in § 117, and make the opening entry in the journal to change to Double Entry as explained in § 118 and in Illustration No. 72. When this is completed, post the entries to the ledger, take a Trial Balance and present all books for approval.

§ 116. Single Entry Statement. The net profit or net loss can always be ascertained whether the books are kept by Single Entry or Double Entry. To make a Single Entry statement proceed as follows: First, ascertain the value of all property on hand by taking an inventory. Second, list the assets and liabilities. As nothing but asset and liability accounts are kept, all debit balances are assets, and all credit balances, except the investment, are liabilities. Third, ascertain the difference between the assets and liabilities; this is the present worth of the business. If it is more than the net investment, there is a profit; if less, a loss. Illustration No. 71 shows the correct form of a Single Entry statement.

§ 117. Closing the Ledger. As each account in the ledger, except the proprietor's Capital account, shows an asset or a liability, the proprietor's Capital account is the only one to close. It is closed in the same manner as the proprietor's Capital account in Double Entry, as explained on page 93. The profit is entered on the credit side, or the loss on the debit side, with red ink, the account ruled with single and double red lines, footed with black ink, and the "Present Capital" brought down in black ink on the credit side.

§ 118. Changing from Single to Double Entry. When it is desired to change the books from the Single Entry method to that of Double Entry, it is necessary to make a statement of the business, and close the ledger, as explained in §§ 116 and 117. A journal entry is made from this statement, debiting all accounts that show an asset, and crediting those showing liabilities, and the proprietor for the investment. This journal entry will balance, since the total liabilities, plus the present worth of the proprietor equals the assets. When the accounts

SINGLE ENTRY STATEMENT, DECEMBER 31, 19

ASSETS			
Cash	1099	60	
Merchandise in stock (Inventory)	2565	87	
Office Equipment (Inventory)	200		
Ledger Accounts:			
Notes Receivable	337	66	
C. G. McClure	350		
University School	101	50	
C. J. McDaniels	12	75	
R. R. Oglesby & Co.	87		
City Electric Co.	110	25	
Ormendorff Bros.	103		
Central Business College	30		
W. R. Austin	8		
Total Assets		5005	63
LIABILITIES			
Ledger Accounts:			
Notes Payable	1146	33	
Belknap Stationery Co.	95		
American Stationery Co.	276	59	
Johnston Bros.	13	75	
Yawman & Erbe Mfg. Co.	1252	38	
Standard Stationery Co.	58	80	
Chatfield & Woods	172	50	
Total Liabilities		3015	35
C. W. Ogden's Present Capital		1990	28
C. W. Ogden's Net Investment		1375	
C. W. Ogden's Net Profit		615	28

Illustration No. 71, Single Entry Statement.

are opened in the ledger, write the word "Inventory" in the explanation column of those accounts which were not kept in the Single Entry ledger. In this set these are Merchandise Inventory, Office Equipment, and Cash. After all the accounts are opened in the ledger, a Trial Balance is taken to prove that the books are in balance. See Illustration No. 72.

JANUARY 1, 19 ..

Cash	1099	60	
Merchandise Inventory	2565	87	
Office Equipment (Inventory)	200		
Notes Receivable	337	66	
C. G. McClure	350		
University School	101	50	
C. J. McDaniels	12	75	
R. R. Oglesby & Co.	87		
City Electric Co.	110	25	
Ormendorff Bros.	103		
Central Business College	30		
W. R. Austin	8		
Notes Payable			1146 33
Belknap Stationery Co.			95
American Stationery Co.			276 59
Johnston Bros.			13 75
Yawman & Erbe Mfg. Co.			1252 38
Standard Stationery Co.			58 80
Chatfield & Woods			172 50
C. W. Ogden, Capital			1990 28
Assets and liabilities at the beginning of the business			

Illustration No. 72, Journal Entry to Change from Single Entry to Double Entry.

Appendix B

DIRECT METHOD OF CLOSING THE LEDGER

The Purpose of this Appendix is to explain the process of making the closing entries direct in the ledger as explained in § 60. The student should understand both methods so that he may apply either as directed.

§ 119. **Closing the Ledger**, as explained in § 53, is an accounting term applied to the process of transferring the net profit or net loss to the owner's Capital account at the close of a fiscal period. The process of making direct in the ledger the entries necessary to transfer the net profit or loss to the owner's Capital account is the same as with the journal entry method.

A comparison of Illustration No. 73 with the illustrations on pages 146 and 147 shows the use of the Statement of Profit and Loss as a guide in closing, and the method of making these entries. The complete accounts used in the illustrations are shown on pages 72 and 73 and are the same accounts as those used as a basis for discussing the closing by the journal entry method, pages 94-96. The ledger on pages 148 and 149 shows the accounts on pages 72 and 73 after the closing entries explained on pages 146 and 147 have been completed; these pages are the same as the accounts on pages 91-93, except that red ink is used in the closing entry in each account and the page of the ledger is shown in the folio column instead of the page in the journal.

When the direct method is used, it is customary to indicate the closing entries which require the transfer of the balance of one account to another, by the use of red ink; for this reason, the direct method of closing the ledger is sometimes referred to as the "red ink method." The date, page of the ledger to which the balance of the account is transferred, and the amount, are entered with red ink, but the same facts, when entered on the opposite side of the account to which they are transferred, are entered in black ink.

W. A. Gordon
Statement of Profit 'Loss, October 31, 19

<i>Returns from Sales:</i>			
<i>Gross Sales</i>			<i>2364</i>
<i>Deduct Sales Returns</i>			<i>1535</i>
<i>Net returns from mdse. sold</i>			<i>234865</i>
<i>Cost of Sales:</i>			
<i>Mdse. Inventory 9/1 500.00</i>			
<i>Add Purchases 263510 3135.10</i>			
<i>Deduct Purchases Returns 2260</i>	<i>311250</i>		
<i>" Mdse. Inventory, 10/31</i>	<i>147715</i>		
<i>Net cost of mdse. sold</i>			<i>163535</i>
<i>Gross Profit on Sales</i>			<i>71330</i>
<i>Operating Cost:</i>			
<i>Expense</i>			<i>32740</i>
<i>Net Profit</i>			<i>38590</i>

Illustration No. 73, Statement of Profit and Loss

The First Entry is that required to record the merchandise inventory at the close of the fiscal period. This entry is necessary because the cost of sales is ascertained on the Statement of Profit and Loss by subtracting the inventory at the close of the fiscal period from the net purchases. The Inventory account is debited because it is one of the assets; the Purchases account is credited for the inventory to indicate the subtraction.

The illustration at the right shows the Purchases account at the close of the fiscal period, and the Inventory and Purchases accounts as they appear after this entry has been made.

Purchases			
19	19		
Oct 31	9155 10	Oct 31	2260

Inventory				
19				
Oct. 31	Miles & Co.	100	4	147715

The Second Entry is that required to transfer the balance of the Purchases account to the

Sales account. This entry is necessary because the profit on sales is ascertained on the Statement of Profit and Loss by subtracting the cost of merchandise sold from the net sales. The Sales account is debited for the cost of sales to indicate the subtraction. Purchases is credited because this account shows the cost of sales. After this entry is made, the Purchases account will balance and be ruled, and the balance of the Sales account will show the net profit on sales as shown by the Statement of Profit and Loss.

Sales	
¹⁹ Oct. 31	¹⁹ 15 35 Oct. 31 2364

Purchases		
19		
Oct 31	313510	Oct 31
		2260
		31 Inventory 4 147715

Sales			
Oct 31	15	Oct 31	2364
31	Cost of Sales	4	163535

Purchases			
19	19		
Oct 31	313510	Oct 31	2260
		31 Inventory	4147715
	313510		313510
			313510

The Third Entry is that required to transfer the balance of the Sales account to the Profit and Loss account. This entry is necessary because it is customary to show in the ledger a summary of the facts shown by the Statement of Profit and Loss. The Sales account is debited because it shows the profit on sales; the Profit and Loss account is credited because this account is credited for all income. After this entry is made, the Sales account will balance and be ruled, and the Profit and Loss account will show the profit on sales.

The illustration at the right shows the Sales account before the third entry has been made, and the Sales and Profit and Loss accounts after this entry has been made.

Sales	
19	19
Oct. 31	1535 Oct. 31
31 Cost of Sales 4	163535
	23642

Laid		
Oct 31	1535 ¹⁹	2364
31 Post of sales	163535	
	2364 ⁰⁰	
	2364	2364

Profit and Loss

Oct 31 Profit on Sales 4 71330

The Fourth Entry is that required to transfer the balance of the Expense account to the Profit and Loss account. This entry is necessary because the net profit is ascertained on the Statement of Profit and Loss by subtracting the expense from the profit on sales. The Profit and Loss account is debited to indicate the subtraction; the Expense account is credited because this account shows the expense for the period. After this entry is made, the Expense account will balance and be ruled and the balance of the Profit and Loss account will show the net profit.

The illustration at the right shows the Profit and Loss and the Expense accounts before the fourth entry has been made, and the Profit and Loss and the Expense accounts after this entry has been made.

Expense									
19	Oct. 31			328 50	19	Oct. 31			1 10
Profit and Loss									
					19	Oct. 31	Profit and Loss	4	713 90
Profit and Loss									
19	Oct. 31	Expense	4	328 50	19	Oct. 31	Profit and Loss	4	713 90
Expense									
19	Oct. 31			328 50	19	Oct. 31			1 10
							31 Profit and Loss	5	328 50
				328 50					328 50

The Fifth Entry is that required to transfer the balance of the Profit and Loss account to the proprietor's Capital account. This entry is necessary because the purpose of closing the ledger is to transfer the net profit to the proprietor's account. The Profit and Loss account is debited because this account shows the net profit; the proprietor's Capital account is credited because this profit is equivalent to an additional investment. When this entry is made, the Profit and Loss account will balance and be ruled, and the proprietor's Capital account will show his present proprietorship as shown by the Balance Sheet.

The illustration at the right shows the Profit and Loss account and the account with W. A. Gordon, Capital, before the fifth entry has been made, and the Profit and Loss and W. A. Gordon Capital accounts after this entry has been made.

W. A. Gordon, Capital									
19	Oct. 31			200	19	Oct. 31			1500
Profit and Loss									
19	Oct. 31	Expense	4	327 40	19	Oct. 31	Profit and Loss	4	713 90
Profit and Loss									
19	Oct. 31	Expense	4	327 40	19	Oct. 31	Profit and Loss	4	713 90
		11 Profit and Loss		713 90					713 90
				713 90					713 90
W. A. Gordon, Capital									
19	Oct. 31			200	19	Oct. 31			1500
							31 Profit and Loss	5	328 50

Closing the Inventory Account

The inventory of merchandise at the close of the fiscal period may remain in the Purchases account throughout the next fiscal period, or it may be closed into the Purchases account at the beginning of the next period; the transfer of the inventory from the Inventory account to the Purchases account, whether made at the beginning or close of the fiscal period, should be through a general journal entry as illustrated on page 96.

Sales

19				19			
Sept.	19	J.1	9 10	Sept.	6	Cr.	32
Oct.	6	C.3	2 50		13	Cr.	40
	24	J.1	3 75		20	Cr.	65
	31	Cost of Sales	4 16 35 35		27	Cr.	44 50
	31	Profit on Sales	2 36 40 0		30	J.1	552 61
				Oct.	4	Cr.	87 65
					11	Cr.	109 80
					18	C.4	129 50
					27	C.4	136 45
					31	C.4	87 19
					31	J.1	1079 80
			2 36 44				2364

Inventory

Oct.	31	Merch. Inv.	4 1477 15
------	----	-------------	-----------

Purchases

19				19			
Sept.	1	Inventory	J.1 500	Sept.	23	J.1	1260
	30	1779.50	P.1 1,292 10	Oct.	20	J.1	10 60
Oct.	2	Freight and Drayage	C.3 2 25		31	Inventory	4 1477 15
	31		P.1 1,340 75				3135 10
			3135 10				3135 10

Expense

19				19			
Sept.	4		C.3 25	Oct.	21	Stamps	C.4 50
	30	165.00	C.3 140		27	"	J.1 60
Oct.	13		C.3 18 50			Profit and Loss	5 327 40
	17		C.5 5				
	31	327.40	C.5 140				328 50
			328 50				

Illustration No. 74, Ledger Closed by Direct Method—Continued.

The Above Accounts Before They are Closed are shown on page 73. It is necessary to open the Inventory account in connection with the closing entries because it is an asset which is not recorded. The process of closing these accounts is analyzed and explained on pages 146 and 147.

W. A. Gordon, Capital

¹⁹					¹⁹				
Oct.	1	C3	200		Sept.	1	C2	1000	
	31	Present Capital	✓	1685 90		1		815 00	
				1885 90	Oct.	31	Profit & Loss	5	385 90
									1885 90
				1885 90	Nov.	1	Present Capital	✓	1685 90

Profit and Loss

¹⁹					¹⁹				
Oct.	31	Expense	4	327 40	Oct.	31	Profit on Sales	4	713 30
	31	W. A. Gordon Capital	✓	713 30					
				713 30					713 30

Illustration No. 75, Ledger Closed by Direct Method—Concluded.

It is Customary to Balance the Capital Account after the ledger is closed and to carry the present capital down under date of the next business day. The illustration above shows the process of balancing W. A. Gordon's Capital account which appears at the bottom of page 72.

The Profit and Loss Account contains a summary of the cost and income as shown by the Statement of Profit and Loss. The account is opened at the close of the fiscal period in connection with the closing entries and closed when the profit is transferred to the Capital account, and remains closed throughout the period.

W. A. Gordon
Post-Closing Trial Balance, October 31, 19

1	Cash	291 61	
1-2	Accounts Receivable	883 51	
3	Accounts Payable		966 37
3	W. A. Gordon, Capital		1685 90
4	Inventory	1477 15	
		2652 27	2652 27
		2652 27	2652 27

Illustration No. 76, Post Closing Trial Balance, Model Set

The Equality of Debits and Credits is maintained in recording the closing entries; hence the ledger should be in balance if these entries have been made correctly. The post-closing Trial Balance is taken to test the correctness of the closing entries. The Trial Balance in the illustration is taken from the ledger accounts on pages 70, 71, 91 and 148. The accounts receivable and accounts payable are grouped and entered in one amount because none of these accounts in the ledger are affected by the closing.

Appendix C

INCOME TAX RETURN

The Purpose of this Appendix is to explain briefly the income tax and to show the method of preparing the return for the Model Set (Chapter VI) on blanks provided by the Government. The student can see from the discussion and illustrations that when all the information needed is available, the preparation of the return is not a difficult problem.

§ 120. Income Tax. There are three methods of taxation: (a) a percentage of the value of property, (b) a fixed amount for privileges, and (c) a percentage of net income. Taxes collected on a property valuation basis are referred to as "property taxes;" taxes collected for privileges, as "license;" taxes collected on income, as "income tax." The property owner submits a schedule of his property as a basis for taxation; the one who wishes to secure a privilege pays in advance for the same and receives a receipt authorizing him to exercise the privilege granted thereby—that is, he receives a license to perform certain business transactions; the one who receives an income submits a schedule of his gross income and the deductions therefrom, as a basis for taxation.

State, city and county governments usually levy taxes on property and privileges, though a few states have levied taxes on income. The United States Government levies taxes on privileges and income; privileges are granted through the sale of stamps, and the taxes on income are collected yearly. The full amount of the tax levied on income may be paid at the time the income tax return is presented to the collector, or quarterly,—one-fourth at the time the return is made and the balance in three equal installments.

The discussion of income tax here refers to that levied by the United States Government. Those states which levy taxes against income usually accept the report made to the Federal Government as a basis for taxation. The process of levying a tax on income by foreign governments is along the same line as that used by the United States Government.

The income tax return is prepared by the taxpayer on a blank provided by the Government, and within seventy-five days from the close of the period which it covers. The official form contains four pages, two for the information in regard to the tax and two pages of instructions. The taxpayer should retain a copy of the return; he removes the two pages of instructions from the blank before it is presented to the Collector of Internal Revenue.

Illustrations Nos. 77, 78, 79 and 80 are a reproduction of the official blank provided for the individual taxpayer whose income is less than \$5,000.00. Illustration No. 77, which is the front of the blank, contains the necessary information in totals only; Illustration No. 78, which is the back of the blank, contains schedules supporting the information given in total on the front. Amounts supported by schedules are indicated on the front by the letter applicable to the schedule on the back; this letter is at the left of the line. Illustrations Nos. 79 and 80 contain information in regard to the preparation of the return.

An income tax return is prepared from the information gained through a record of the transactions completed by the taxpayer. The preparation of the income tax return is more difficult for the taxpayer than the preparation of a schedule of property for taxation because property can be counted, but income can be ascertained only through a record of transactions; the difficulty results from the taxpayer's failure to record all the transactions he has performed. The necessity for recording transactions completed by a business and by an individual is emphasized through the discussion of bookkeeping for a business and for an individual in §§ 9 and 10.

The figures in the income tax return, Illustrations Nos. 77 and 78, are the results of transactions completed by W. A. Gordon, a retail grocer, in connection with his grocery business, also income he has received from other sources, and deductions to which he is entitled. The income from his grocery business is shown by the following Statement of Profit and Loss prepared for him by his bookkeeper.

W. A. GORDON

Statement of Profit and Loss, August 31, 1922

Returns from Sales:				
Gross Sales.....				\$15,275.80
Deduct Sales Returns.....				101 92
Net returns from merchandise sold.....				\$15,173.88
Cost of Goods Sold:				
Mdse. Inventory Sept. 1, 1921	500.00			
Add Purchases.....	11,026.85	11,526.85		
Deduct Purchases Returns.....			85.40	11,441.45
Deduct Mdse. Inventory Aug. 31, 1922				1,477.15
Net cost of merchandise sold				9,964.30
Gross Profit on Sales.....				5,209.58
Operating Cost:				
Expense.....				2,039.90
Net Profit.....				\$3,169.68

In addition to his income from the grocery business, Mr. Gordon received \$300.00 salary as a member of the board of directors for the Peoples Insurance Company, \$100.00 dividend from stock which he owns in this company, \$47.50 interest on a \$1,000.00 Liberty Bond, and \$25.50 interest on United States Treasury certificates; his traveling expenses in connection with attending Board meetings were \$30.00, taxes on his home \$35.50, and contributions to charity, \$50.00.

The transactions completed by W. A. Gordon during the first two months in which he is engaged in the grocery business are given in the Model Set, Chapter VI, and the form of Statement of Profit and Loss prepared by his bookkeeper showing the results of completing the transactions at the end of these two months, is given in Chapter VII. Comparing the Statement of Profit and Loss given above with the Statement of Profit and Loss in Chapter VII, the student will observe that the form is the same but the amounts are different because of additional transactions in the succeeding ten months.

§ 121. Exempt Income. The taxpayer is not required to pay tax on all income. Space will not permit a detailed discussion of these exemptions here, but they are all given in the law authorizing the taxing of income, a complimentary copy of which is provided the teachers by the publishers of this text. Dividends from corporations are exempt because the corporation has already paid the tax; interest (under a fixed amount) on bonds issued during the World War, on Treasury certificates, and on other Government obligations, is exempt; these exemptions are mentioned because they are illustrated on the tax return. Exempt income is mentioned at this time because the student should understand that all income is not taxable and that part which is not taxable should not be shown on the front of the income tax return.

The explanation of Illustrations Nos. 77, 78, 79 and 80, as given on the next page, is arranged in the same order as the lines on the income tax return. The student should keep in mind the fact that this return was prepared from the

information given on page 151 in regard to Mr. Gordon's income. The numbers at the left refer to the numbers of the lines in the illustrations.

1. The \$300.00 represents the total salary and the \$30.00 the total expenses in connection with attending the Board meetings. The address of the company from whom this salary was received is required in order to prepare an audit of the statement of income submitted by the company. Further information in regard to this income is given in Schedule F on page 2 of the return.

2. Mr. Gordon did not receive any interest on bank deposits, notes, mortgages, or corporation bonds; the only interest he received was from Liberty Bonds and Treasury certificates, which is exempt.

3. No figures are entered on this line because Mr. Gordon did not receive an income of this nature. If the taxpayer receives income of this kind from a number of companies, it will be necessary to write the name and address of each on a separate sheet of paper and attach it to the statement.

4. No figures are entered on this line because Mr. Gordon did not receive income as rent of property which he owned or royalties on patents or copyrights. Schedule A on page 2 of the return is provided for detailed information in regard to such income.

5. The amount entered on this line is the net profit shown by the Statement of Profit and Loss prepared by the bookkeeper for the business owned by W. A. Gordon. This income is explained in detail in Schedule B on page 2 of the return.

6, 7 and 8. No amounts are written on these lines for the same reason as that given in the explanation of lines 2, 3 and 4. It will be observed that schedules are provided where detailed information should be given in connection with the income, also that the number of the paragraph explaining the method of ascertaining the income is given at the left.

9. The total taxable income as outlined on the preceding eight lines is entered on this line. It represents the profit which Mr. Gordon has received from the operations of his grocery business and the \$270.00 salary as director.

10. The meaning of this interest is explained in paragraph No. 20 of the instructions. Interest taken into consideration when ascertaining the profit resulting from the operations of the grocery business owned by Mr. Gordon would not be entered on this line because it has already been deducted from the amount entered on line 5; this explains the phrase in parenthesis.

11. The meaning of taxes is explained in paragraph No. 21 of the instructions. The \$35.50 entered on this line is the taxes Mr. Gordon paid on his home.

12. No amount appears on this line for the same reason given in the explanation for lines 2, 3 and 4. It will be observed that deductions claimed on account of fire or storm loss must be explained in Schedule E, page 2.

13. Mr. Gordon contributed \$50.00 to Community Chest and the amount is entered on this line. It will be observed that a further explanation is required in Schedule F.

14 and 15. No entries are made on these lines for the reason given in the explanation for lines 2, 3 and 4.

16. The total deductions are entered on line 16, subtracted from line 9, and the net income entered on line 17.

18-25 are provided for the summary, showing the amount of tax to be paid by the taxpayer.

The schedules on page 2 of the return are self-explanatory. They are required in order that the Treasury Department may know that the taxpayer has correctly interpreted the law and given the information which is the result of this interpretation. The taxpayer must swear or affirm to the correctness of his return at the time it is submitted; this oath may be administered by the clerk in the Internal Revenue office or by any public official who is authorized by law to administer oaths.

Form 1040A U. S. INTERNAL REVENUE		INDIVIDUAL INCOME TAX RETURN FOR NET INCOMES OF NOT MORE THAN \$5,000 For Calendar Year 1921 Or for period begun <u>Sept. 1, 1921</u> , and ended <u>Aug. 31, 1922</u>		Do not write in this space FIRST PAYMENT \$ _____ (Cashier's Stamp)	
FILE RETURN WITH THE COLLECTOR OF INTERNAL REVENUE FOR YOUR DISTRICT ON OR BEFORE MARCH 15, 1922		PRINT NAME AND ADDRESS PLAINLY BELOW <u>W. A. Gordon,</u> (Name.) <u>605 Main Street,</u> (Street and number or rural route.) <u>Cincinnati, Hamilton, Ohio.</u> (Post office.) (County.) (State.)		CASH CHECK M. O. Examined by _____	
OCCUPATION, PROFESSION, OR KIND OF BUSINESS <u>Retail Grocery</u>					
See In- struction Number 13	Explain in Schedule (page 2) F	INCOME.			
		1. Salaries, Wages, Commissions, etc. (State name and address of person from whom received.) <u>Peoples Insurance Company</u>	Amount received. <u>\$ 300.00</u>	Expenses paid. <u>\$ 30.00</u>	<u>\$ 270 00</u>
		<u>Hamilton, Ohio.</u>			
14		2. Interest on Bank Deposits, Notes, Mortgages, and Corporation Bonds			
15	A	3. Income from Partnerships, Fiduciaries, etc. (State name and address of partnerships, etc.)			
16	B	4. Rents and Royalties			
17	C	5. Profit (or loss) from Business or Profession (not including income from partnerships)			
18	D	6. Profit (or loss) from Sale of Real Estate			
19		7. Profit (or loss) from Sale of Stocks, Bonds, etc.			
		8. Other Income (except dividends from domestic corporations and interest on obligations of the U. S.) (State nature of income) (a) _____ (b) _____			
		9. TOTAL INCOME IN ITEMS 1 TO 8 (less losses shown above, if any)			
		<u>\$ 3439 68</u>			
DEDUCTIONS.					
20		10. Interest Paid (not including interest deducted above)			
21		11. Taxes Paid (not including taxes deducted above)			
22	E	12. Losses by Fire, Storm, etc.			
23	F	13. Contributions			
24	F	14. Bad Debts (not including bad debts deducted above)			
25	F	15. Other Deductions Authorized by Law			
		16. TOTAL OF ITEMS 10 TO 15			
		<u>\$ 85 50</u>			
		17. TAXABLE NET INCOME (Item 9 minus Item 16)			
		<u>\$ 3354 18</u>			
COMPUTATION OF TAX.					
		18. Net Income (Item 17 above)	<u>\$ 3354 18</u>	21. Tax Due (4% of Item 20)	<u>\$ 18 17</u>
8		19. Less Personal Exemption and Credit for Dependents	<u>2900 00</u>	22. Less: Tax Paid at Source Income and profits taxes paid to a foreign country or possession of the United States (attach Form 1116)	<u>\$</u>
		20. Balance (Item 18 minus Item 19)	<u>\$ 454 18</u>	24. Balance Due (Item 21 minus 22 and 23)	<u>\$ 18 17</u>
11		Checks will be accepted if payable at par at Collector's Office.		25. Tax Paid when Filing Return	<u>\$ 18 17</u>

SCHEDULE A.—EXPLANATION OF ITEM 4. (Rents and Royalties.)

1. Kind of property.	2. Cost, or March 1, 1913, value.	3. Amount received.	4. Repairs.	5. Depreciation and depletion.	6. Other expenses.	7. Net profit (or loss).

State estimated life of property and how you figured depreciation

SCHEDULE B.—EXPLANATION OF ITEM 5. (Business or Profession.)

Total Income from Business or Profession	Gross Sales \$15,275.80—Returns \$101.92	15173.88
Total Business Expenses (state specifically, see Instruction 16)	Mdse. \$9,964.30, Expense \$2,039.90	12004.20
		3169.68

Net Profit (or Loss) (If profit is less than usual, explain)

Explanation of business expenses Net purchases \$11,441.45—inventory 8/31/22 \$1,477.15.
 Rent \$780.00, taxes \$75.50, insurance \$50.00, salaries \$900.00, delivery cost \$100.00, advertising \$50.00, miscellaneous \$84.40.

SCHEDULE C.—EXPLANATION OF ITEM 6. (Sale of Real Estate.)

1. Kind of property.	2. Date acquired.	3. Amount received.	4. Cost.	5. March 1, 1913, value.	6. Subsequent improvements.	7. Depreciation.	8. Net profit (or loss).

If not acquired by purchase, state how acquired

SCHEDULE D.—EXPLANATION OF ITEM 7. (Sale of Stocks, Bonds, etc.)

1. Kind of property.	2. Date acquired.	3. Cost.	4. March 1, 1913, value.	5. Amount received.	6. Net profit (or loss).

If not acquired by purchase, state how acquired

SCHEDULE E.—EXPLANATION OF ITEM 12. (Losses by Fire, Storm, etc.)

1. Kind of property.	2. Cost, or March 1, 1913, value.	3. Depreciation previously taken.	4. Salvage value.	5. Insurance.	6. Net loss.

SCHEDULE F.—EXPLANATION OF DEDUCTIONS CLAIMED IN ITEMS 1, 13, 14, and 15.)

Item 1: traveling expenses incidental to attending Board meetings.
 Item 13: contributions to Community Chest.

1. Are you a citizen or resident of the United States? Yes	2. If you filed a return for 1920, to what Collector's office was it sent? Cincinnati, Ohio	3. Is this a joint return of husband and wife? No
4. Was a separate return filed by your husband or wife? No	If so, state: (a) Exemption claimed, \$ (b) Name and address entered at head of that return	
5. Were you married and living with husband or wife on the last day of your taxable period? Yes	6. If not, were you on the last day of your taxable period supporting one or more persons living in your household who are closely related to you by blood, marriage, or adoption? One child	
7. How many dependent persons (other than husband or wife) under 18 years of age or incapable of self-support because mentally or physically defective were receiving their chief support from you on the last day of your taxable period?	8. State amount of dividends received from domestic corporations (including dividends received through partnerships, fiduciaries, etc.) \$ 100.00	9. State amount of interest received on other obligations of the United States (except Liberty Bonds) on a principal in excess of \$5,000 \$ 47.50
	10. State amount of interest received on other obligations of the United States (except Liberty Bonds) on a principal in excess of \$5,000 \$ 25.50	

I SWEAR (or affirm) that this return, including the accompanying schedules and statements (if any), has been examined by me, and, to the best of my knowledge and belief, is a true and complete return, made in good faith, for the taxable period as stated, pursuant to the Revenue Act of 1921 and the Regulations issued under authority thereof.

(If return is made by agent, the reason therefor must be stated on this line.)

Sworn to and subscribed before me this..... day of.....

(Signature of individual or agent.)

(Signature of officer administering oath.)

(Title.)

(Address of individual or agent.)

(An amended return must be plainly marked "Amended" across the face of the return.)

2-11602

INSTRUCTIONS FOR INDIVIDUAL RETURN

1. PERSONS REQUIRED TO MAKE A RETURN OF INCOME.

An income tax return must be filed by every citizen of the United States whether residing at home or abroad, and every person residing in the United States, though not a citizen thereof, whose gross income for the taxable period 1921 amounted to \$3,000, or whose net income amounted to:

- (a) \$1,000 if single or married and not living with husband or wife.
- (b) \$2,000 if married and living with husband or wife.
- If the combined net income of husband, wife, and dependent minor children equalled or exceeded \$2,000, or if the combined gross income of husband, wife, and dependent minor children equalled or exceeded \$5,000 all such income must be reported on a joint return, or on separate returns of husband and wife. If in England the net income, including that of dependent minors, if any, equalled or exceeded \$1,000, or if the gross income equalled or exceeded \$5,000, a return must be filed. A minor, however, having a net income of \$1,000 or \$2,000, according to the marital status, or a gross income of \$5,000, must file a return.

Under each of the above conditions, a return must be filed even though no tax is due. Note especially Instruction 8, "Credits for Personal Exemption and Dependents."

The income of a minor or incompetent, if derived from a separate estate under control of a guardian, trustee, or other fiduciary, must be reported by his guardian or other legal representative.

Income of (a) estates of decedents before final settlement; (b) trusts, whether created by will or deed, for unascertained persons or persons with contingent interests; or income held, or which under the terms of the will or trust may be held, for future distribution, is taxed to the fiduciary as a single person, except that from the income of an estate there may first be deducted any amount properly paid or credited to beneficiaries.

If the net income of a decedent from the beginning of the taxable period to the date of his death was \$1,000, if unmarried, or \$2,000, if married, and living with wife or husband, or if the gross income was \$5,000 or over, the executor or administrator shall file a return on Form 1040 or 1040A for such decedent.

2. WHEN TO USE FORM 1040 INSTEAD OF THIS FORM.

You must file your return on Form 1040—

- (a) If the combined net income of husband and wife exceeds \$5,000.
- (b) If your net income exceeds \$3,000.
- (c) If the net income reported in this return exceeds \$4,000 and the entire family exemption has been claimed in a separate return filed by husband or wife.
- (d) If the return is filed for a period of less than one year and the net income when placed on an annual basis exceeds \$5,000. (See Instruction 3 below.)

3. PERIOD TO BE COVERED BY RETURN.

Your return must be filed for the calendar year ending December 31, 1921, or for the fiscal year ending on the last day of any month other than December. The dates on which the period covered by the return begins and ends, if other than a calendar year, must be plainly stated at the head of the return.

You were required to file your return for 1918 on the basis of your annual accounting period. Having established an accounting period for 1918 this period must be adhered to for subsequent years, unless permission was received from the Commissioner to make a change. In the case of a return for a period of less than one year, the net income shall be placed on an annual basis by multiplying the amount thereof by twelve and dividing by the number of months included in such period; and the tax shall be such part of a tax computed on such annual basis as the number of months in such period is of twelve months.

4. ACCRUED OR RECEIVED INCOME.

If your books of account are kept on an accrual basis, report all income accrued, even though it has not been actually received or entered on the books; and expenses incurred instead of expenses paid.

If your books do not show income accrued and expenses incurred, report all income received or constructively received, such as bank interest credited to your account, and expenses paid.

5. INSTALLMENT SALES.

If you have used the installment method in computing income from installment sales you must attach to your return a schedule showing separately for the years 1918, 1919, 1920, and 1921 the following information: (a) Gross sales; (b) cost of goods sold; (c) gross profits; (d) percentage of profits to gross sales; (e) amount collected; (f) gross profit on amount collected.

6. ITEMS EXEMPT FROM TAX.

The following items are exempt from Federal income tax and should not be reported, unless it is desired to establish a net loss, in which case see Section 204 of the Revenue Act of 1921:

- (a) The proceeds of life insurance policies paid upon the death of the insured;
- (b) The amount received by the insured as a return of premium or premiums paid by him under life insurance, endowment, or annuity contracts, either during the term or at the maturity of the term mentioned in the contract or upon surrender of the contract;
- (c) Gifts (not made as a consideration for service rendered), and money and property acquired under a will or by inheritance (but the income derived from money or property received by gift, will, or inheritance is taxable and must be reported);
- (d) Interest upon (1) the obligations of a State, Territory, or any political subdivision thereof, or the District of Columbia; or (2) securities issued under the provisions of the Federal Farm Loan Act of July 17, 1916; or (3) the obligations of the United States or its possessions; or (4) bonds issued by the War Finance Corporation. In the case of obligations of the United States issued after September 1, 1917 (other than postal savings certificates of deposit), and in the case of bonds issued by the War Finance Corporation, the interest is exempt only if and to the extent provided in the respective acts authorizing the issue thereof as amended and supplemented by Section 1323 of the Revenue Act of 1921, and should be excluded from gross income; (and to the extent it is wholly exempt to the taxpayer from income, war profits, and excess profits taxes);
- (e) Amounts received through accident or health insurance or under workmen's compensation acts as compensation for personal injuries or sickness, plus the amount of any damages received, whether by suit or agreement, on account of such injuries or sickness;

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- (f) Amounts received as compensation, family allotments and allowances under the provisions of the War Risk Insurance and the Vocational Rehabilitation Acts, or as pensions from the United States for service of the beneficiary in the military or naval forces of the United States in time of war; or
- (g) The rental value of a dwelling house and appurtenances thereof furnished to a minister of the gospel as part of his compensation;
- (h) Compensation paid by a State or political subdivision thereof to its officers or employees.

7. FARMER'S INCOME SCHEDULE.

If you are a farmer or a farm owner renting your farm out on shares and keep no books of account, or keep books on a cash basis, you must file a return, and attach to this return, Form 1040 F, Schedule of Farm Income and Expenses. Enter the net farm income as Item 5, page 1 of the return. If your farm books of account are kept on an accrual basis, the filing of Form 1040 F is optional. Report income from salaries, interest, rents, sales of property, etc., in Items 1 to 7 of the return.

8. CREDITS FOR PERSONAL EXEMPTION AND DEPENDENTS.

If you were married and living with your husband or wife or were head of a family on the last day of your taxable period, you may subtract from your net income on Form 1040A, before calculating your normal tax, an exemption of \$2,500, plus \$400 for each person (other than husband or wife) under 18 years of age or incapable of self-support because mentally or physically defective, who was receiving his chief support from you on that date. If husband and wife were separate returns, the exemption of \$2,500 may be claimed by either (but not by both) or may be divided between them, but the exemption of \$400 for each dependent may be claimed only by the person furnishing the chief support.

If you were not married or did not live with husband or wife and were not head of a family on the last day of your taxable period, you are entitled to a personal exemption of \$1,000 plus \$400 for each dependent person under 18 years of age or incapable of self-support because mentally or physically defective, who was receiving his chief support from you on that date.

An exemption of \$1,000 may be claimed in cases where Form 1040A is filed for estates in process of administration, or with respect to income held for future distribution.

If by reason of a change in your accounting period a return is filed for part of a year, the personal exemption and credit for dependents may be claimed in accordance with your status on the last day of such taxable period. (See also Instruction 3 on this page.)

A "head of family" is a person who actually supports one or more persons living in his (or her) household, who are closely related to him (or her) by blood, marriage, or adoption.

9. AFFIDAVIT.

The affidavit must be executed by the person whose income is reported unless he is a minor or incompetent, or unless he is ill, absent from the country, or otherwise incapacitated, in which case the legal representative, or agent may execute the affidavit. A minor, however, making his own return, must execute the affidavit.

The oath will be administered without charge by any collector, deputy collector, or internal revenue agent, or (if you are in the military or naval service of the United States) by any military or naval officer who is authorized to administer oaths for purposes of military or naval justice and administration. If an internal revenue officer is not available, the return should be sworn to before a notary public, justice of the peace, or other person authorized to administer oaths.

10. WHEN AND WHERE THE RETURN MUST BE FILED.

If the return is for the calendar year 1921, file it with the Collector of Internal Revenue for the district in which you live or have your principal place of business on or before March 15, 1922. If for a period other than the calendar year, the return should be filed on or before the 15th day of the third month following the close of such period.

In case the taxpayer had no legal residence or place of business in the United States, the return should be forwarded to the Collector of Internal Revenue, Baltimore, Md.

If the address of the collector is not printed on the return and you do not know it, ask at the post office or bank.

11. WHEN AND TO WHOM THE TAX MUST BE PAID.

The tax should be paid, if possible, by sending or bringing with the return a check or money order drawn to the order of "Collector of Internal Revenue at (insert name of city and State)." Do not send cash through the mail, or pay it in person, except at the office of the collector.

The tax may be paid in four equal installments as follows: The first installment shall be paid at the time fixed by law for filing the return, the second installment shall be paid on the 15th day of the third month, the third installment on the 15th day of the sixth month, and the fourth installment on the 15th day of the ninth month after the time fixed by law for filing the return.

The total tax may be paid at the time of filing the return, or if not so paid, one installment must be paid and the balance may be paid in installments, or in full, on or prior to any subsequent installment date referred to above. Failure to pay any installment on the date fixed by law makes the taxpayer liable for the payment of the balance of tax due upon notice and demand by the collector.

12. PENALTIES.

For Making False or Fraudulent Returns.

Not exceeding \$10,000 or not exceeding one year's imprisonment, or both, in the discretion of the court, and, in addition, 50 per centum of the tax evaded.

For Failing to Make Return on Time.

Not more than \$1,000, and, in addition, 25 per centum of the total tax.

For Failing to Pay Tax When Due, or Understatement of Tax Through Negligence, etc.

Five per cent of the tax due but unpaid, plus interest at the rate of 1 per centum per month during the period in which it remains unpaid.

13. INCOME FROM SALARIES, WAGES, COMMISSIONS, ETC.

Report all salaries or other compensation credited by or received from outside sources, and any salaries included as a deduction in Item 5 for (a) yourself, (b) your wife (or husband), if a joint return is filed, and (c) each dependent minor child having a net income of less than \$1,000 per annum. Use a separate line for each entry, giving the information requested.

Any amount claimed as a deduction for necessary expenses against salaries, etc., should be fully explained in Schedule F, page 2 of the return, or in an attached statement.

Traveling expenses (including the entire amount expended for meals and lodging) while away from home in the pursuit of a trade or business are deductible.

14. INCOME FROM PARTNERSHIPS, FIDUCIARIES, ETC.

Report your share (whether received or not) in the profits of a partnership or personal service corporation, or in the income of an estate or trust, except the part of such share that consists of dividends on stock of domestic corporations, and taxable interest on obligations of the United States, which should be included in Items 8, 9, and 10, at foot of page 2 of the return.

Report in Item 1, salary received from a partnership or personal service corporation.

If the taxable period on the basis of which you file your return falls to coincide with the annual accounting period of the partnership, personal service corporation, or fiduciary, then you should include in your return your distributive share of the total net income for such accounting period, ending within your taxable period.

15. INCOME FROM RENTS AND ROYALTIES.

If you received property or crops in lieu of cash rent, report the income as though the rent had been received in cash. Crops received as rent on a crop-share basis should be reported as income for the year in which disposed of (unless your return shows income accrued).

Explain in Schedule A, repairs, depreciation, depletion, and other expenses. Other expenses include interest, taxes, fire insurance, fuel, light, labor, and other necessary expenses of this character.

16. INCOME FROM BUSINESS OR PROFESSION.

Report in Item 8 income from—

(a) Sale of merchandise, or of products of manufacturing, construction, mining, and agriculture.

(b) Business service, such as transportation, storage, laundering, hotel and transient service, livery and garage service, etc., if you owned the business. If you are only an employee of a business, report your salary or wages in Item 1.

(c) A profession, such as medicine, law, or dentistry, if you practiced it on your own account. If you were employed on a salary, report your salary in Item 1.

In general, report in Item 5, any income in the earning of which you incurred expenses for labor, rent, etc.

If you are a farmer (or a farm owner) renting your farm to another person on shares, see Instruction 7.

Describe the business or profession, as "grocery," "retail clothing," "drug store," "laundry," "doctor," "lawyer," "farmer," etc. Report the total income derived from sales or services, less any discounts or allowances from the sale price or service charge. (For installment sales see Instruction 5.)

"Total Business Expenses" include: (1) cost of goods sold, which is usually obtained by adding to the inventory at the beginning of the year the merchandise and supplies purchased during the year, and deducting from this sum the inventory at the end of the year; (2) business expenses, which include all ordinary and necessary business expenses not classified above, such as office wages, rent, heat, light, and traveling expenses (see Instruction 13); (3) repairs, wear and tear, obsolescence, depletion, and property losses (other than merchandise), such as (a) ordinary repairs required to keep property in usable condition, (b) reasonable allowance for exhaustion, wear and tear of property used in the trade or business, including a reasonable allowance for obsolescence, and (c) losses of business property by fire, storm, or other casualty, or theft, not compensated for by insurance or otherwise and not made good by repairs claimed as deductions; and (4) bad debts, or portions thereof, arising from sales or professional services that have been reported as income, which have been definitely ascertained to be worthless and charged off within the year, or such reasonable amount as has been added to a reserve for bad debts within the year. A debt previously charged off as bad, if subsequently collected, must be returned as income for the year in which collected. Explain these deductions under Schedule B, page 2 of the return.

Do not include cost of business equipment or furniture, expenditures for replacements or for permanent improvements to property, or personal living or family expenses, nor any deduction for depreciation in the value of a building occupied by you as a dwelling, or of other property held for personal use.

If Item 5 shows a deficit, indicate by using red ink or a minus sign.

17. PROFIT FROM SALE OF REAL ESTATE.

Describe the property briefly, as "farm," "house," "lot," etc.

State the actual consideration or price received, or, in case of an exchange, the fair market value of the property received.

Enter the original cost of the property, and if it was acquired prior to March 1, 1913, the fair market value on that date. Attach statement explaining how value at March 1, 1913, was determined. Expenses incidental to the purchase may be included in the cost if never claimed in income tax returns as deductions from income.

Enter as depreciation the amount of wear and tear and obsolescence, or depletion, sustained since March 1, 1913 (or since date of acquisition, if subsequent to March 1, 1913).

In case the property was acquired by gift, bequest, devise, or inheritance after March 1, 1913, or in any manner prior to that date, see Section 202 of the Revenue Act of 1921.

If the net result to be entered in Item 6 is a deductible loss, indicate the deficit by using red ink or a minus sign.

18. PROFIT FROM SALE OF STOCKS, BONDS, ETC.

The method of computation and the information to be submitted in the case of sales of stocks, bonds, etc., similar to that required for Item 6, except that subsequent improvements and depreciation are not involved. The profit (or loss) should be computed in accordance with Instruction 17 above.

19. OTHER INCOME.

Report all other taxable income for which no place is provided elsewhere on page 1 of the return, including dividends received on stock of foreign corporations. Dividends received on stock of domestic corporations and taxable interest on obligations of the United States should be reported in Items 8, 9, and 10 at the foot of page 2 of the return.

20. INTEREST PAID.

Enter as Item 10 interest paid on personal indebtedness as distinguished from business indebtedness (which should be deducted under Schedules A, B, C, or D). Do not include interest on indebtedness incurred for the purchase of bonds and other obligations, the interest on which is exempt from tax, except interest on indebtedness incurred to purchase or carry obligations of the United States issued after September 24, 1917, and originally subscribed for by the taxpayer.

21. TAXES PAID.

Enter as Item 11 personal taxes paid and all taxes on property not used in business or profession, not including those assessed against local benefits of a kind tending to increase the value of the property. Do not include Federal income taxes, taxes imposed upon the taxpayer upon his interest as shareholder or member of a corporation, which are paid by the corporation without reimbursement from the taxpayer, nor income and profits taxes claimed as a credit in Item 23, page 1 of the return.

22. LOSSES BY FIRE, STORM, ETC.

Enter as Item 12 losses of property not connected with your trade, business, or profession, sustained during the year from fire, storm, shipwreck, or other casualty, or from theft, which were not compensated for by insurance or otherwise. (Losses claimed should be explained in Schedule E, on page 2 of the return.)

Do not deduct losses incurred in transactions which were neither connected with your trade or business, nor entered into for profit.

23. CONTRIBUTIONS.

Enter as Item 13 contributions or gifts made within the taxable period to or for the use of: (a) the United States, any State, Territory, or any political subdivision thereof, or the District of Columbia, for exclusively public purposes; (b) any corporation, or community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, including posts of the American Legion or the Women's Auxiliary units thereof, or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private stockholder or individual; or (c) the special fund for vocational rehabilitation authorized by section 7 of the Vocational Rehabilitation Act; to an amount which in all the above cases combined does not exceed 15 per centum of the taxpayer's net income as computed without the benefit of this paragraph.

Fiduciaries filing this return for estates in the process of administration are allowed, in lieu of this deduction, that provided in Section 219 (b) of the Revenue Act of 1921. List names of organizations and amounts contributed to each in Schedule F.

24. BAD DEBTS.

Enter as Item 14 all bad debts other than those claimed as a deduction in Items above. State in Schedule F (a) of what the debts consisted, (b) when they were created, (c) when they became due, and (d) how they were actually determined to be worthless.

25. OTHER AUTHORIZED DEDUCTIONS.

If this return is filed for an estate in the process of administration, there may be deducted the amount of any income property paid or credited to beneficiaries. Any deduction claimed in Item 15 should be explained in Schedule F.

DETACH AND RETAIN THIS INSTRUCTION SHEET WITH YOUR WORKING PAPERS.

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